



**THE GLOBAL CRISIS AND ITS CONSEQUENCES
IN EUROPE AND SPAIN**

Jerusalem, 5 February 2009

It is a great pleasure for me to be here at the Hebrew University, in this magnificent setting, looking over such a historical and important city like Jerusalem, one of the cradles of Civilization. Thanks, sincerely, for the invitation.

Last week I was in Washington, where I teach at Georgetown University. I had the opportunity to experience first-hand the high expectations brought about by the 44th President of that great nation, Barack Obama. Of course, we are all aware of the new challenges ahead for the new President: the financial and economic crisis, the new geostrategic context, the risk that democracies are facing around the world. But the picture is not completely gloomy. There seem to be new chances for democracy, as seen last weekend in Iraq. It is great news for the future of freedom.

I would like to share with you a few comments on the current crisis. It is undeniable that we are living a financial and economic crisis of unprecedented dimensions. I am convinced that if we aim to get out of this crisis a sound diagnosis of its causes is required. We must reach consensus as to what has happened if we want to find a solution.

For me, it is clear that the ultimate origin of the financial crisis can be traced back to the State incentives introduced to encourage a rapid expansion of credit. Real interest rates became negative and there was a policy designed to promote access to housing for a financially risky sector of the population. The combined effect of those measures led to a spectacular increase in indebtedness. The burst

of that bubble made evident the deferred costs that remained hidden in the financial system.

The financial crisis has ushered in an economic crisis worldwide. It is clear now that the distinction between the financial economy and the real economy is somehow artificial. This crisis has translated into a global economic slump, accompanied by the social consequences that we all know: poverty, unemployment and lack of trust in the system.

But the financial and economic crises are not the only crisis we are suffering. I think we are also going through a crisis of ideas and a crisis of memory. It is hard to understand how many political leaders are suggesting as the potential solution to our current economic problems the same mistakes that led us into this crisis in the first place

Maybe the most urgent demand of today's situation is the recovery of a sound and efficient financial system. Without it, we will not see an economic recovery.

I do not think that protectionism is the answer to an obsolete economic system. We must defend free trade against protectionism.

I do not think that interventionism and the new State-driven policies - which are a new edition of the fatal arrogance whose consequences we are familiar with - will replace the creativity and innovation of private initiative and competitiveness. No political leader can replace the knowledge of free market. Therefore, I think we should

avoid that trend followed by some politicians who want to replace free market with their so-called “economic visions”. We should not forget the tragic consequences of that fatal arrogance.

Furthermore, I think that political leaders should avoid falling hostages of organized lobbies from inefficient economic sectors whose only aim is to benefit from tax payers’ money.

In my opinion, political leaders should resist these calls even if they are disguised as rescue packages of inefficient companies.

We need better regulations; we need more efficiency in the controlling bodies; we need more freedom and certainly we don’t need more protectionism but free trade and openness.

In short, I believe that the situation demands for political leaders to portray reality and avoid the easy speech of protectionism and State interventionism. They must also be willing to take difficult decisions.

Indeed, the world is definitely a complicated place. But we must transform risks into opportunities. Last weekend Iraq proved the importance of perseverance on this effort.

But unfortunately, the economic crisis is not the only problem that we face today. The challenges posed to liberal democracy and security are also urgent matters to take care of.

Democracy has spread around the world, but it has not been free from powerful resistances.

Nobody is questioning honest capitalism as the most effective way to produce prosperity. But some are questioning the political system, the classical liberal democracy and the open societies that this system has nurtured.

In that sense, there is a growing axis of convenience among several autocratic regimes that poses a challenge to freedom worldwide. Therefore, we should take care to avoid that the steps that we take to get out of this economic recession will not lead us to a more difficult situation in order realms.

I believe that the economic slowdown should not diminish our efforts to expand freedom and democracy. We need a reinforced democratic front, not a reinforced autocratic camp.

Besides that, democracy, open societies, and in short, civilization are still being challenged and threatened by the forces of radical Islamism. We should be aware of the fact that the first victims of radical Islamism are precisely the people living under their yoke. They are being taken hostages because of their religious faith.

This radical Islamism can take the form of terrorist groups like Al Qaeda. It is not going to be easy to put an end to these forces. But it is clear that in order to defeat them, we should redouble our efforts to promote openness, tolerance and freedom in the Arab world. It is clear that we should combat and defeat terrorism but we should also encourage the forces of civilization.

In that respect, I think that the support for the dissidents that fight for democracy is an essential ingredient if we want to advance the cause of freedom and tolerance in the Arab world. Again, Iraq has proven that - combining security and flexibility - the vision of a democratic, stable, peaceful and prosperous Arab world is not just a dream. Having said that, I am optimistic. There is no need to despair. I do believe there is hope.

I think that we are able to put together all the necessary ingredients to solve the current economic turmoil; to face our security challenges and to overcome our fears.

The only requirement would be to avoid major mistakes and implement the right policies. Easier said than done, I accept. But if we are guided by moral clarity, determination, and confidence in ourselves, success will come.

I always thought, as a matter of principle, that the values of freedom, human dignity and open societies are better than the hatred by which their enemies are moved. And I still think that a system that is based upon liberal democracy, free market economy and the thorough respect for human dignity is the best system to promote freedom and prosperity. And I am sure that it will be the one to succeed in the future.

Arnold Toynbee, the British historian, wrote, "Civilizations rarely die from outside causes, but from the inside". Therefore, I do believe that we should be aware of our inner weaknesses.

We are living in a period where relativism -everything goes- is the king; multiculturalism blurs our fundamental principles such as equality before the law. Appeasement towards those who want to destroy freedom is making its way back into the diplomatic agenda.

We need leaders with a strong sense of direction, principled, and with a moral compass to guide their decisions, which may well be difficult and unpopular.

It is crucial that we do our best to strengthen free and democratic institutions; it is crucial to overcome any hesitations that we may have.

The first thing to do is to acknowledge that the security equation we were used to is now up side down. Let me give you an example: for decades we thought that the security of Israel was dependent from our support and help (more true for the US than for Europe, I have to accept). But what do we see today? that our security, it doesn't matter whether in America or Europe, is dependent of Israel security and continued existence.

To me, Israel is the main target of Islamist terrorism, because it embodies the principles of liberal democracy, human rights, the Rule of Law and tolerance. That is precisely what terrorists want to destroy and that is the reason why I believe that we should work hand in hand with Israel to make those principles prevail.

So in my view, we must do whatever is necessary to reinforced Israel's position, people, prosperity, and security, because that will be the best investment we can do to our own security.

With that in mind I launched an initiative three years ago: to reform NATO, our only collective military alliance, in a double direction.

Firstly, to include as one of its strategic tasks the fight against Islamist terrorism, because I believe jihadism is an existential threat to all of us; and secondly, to expand NATO in order to become a truly global defensive organization, inviting for membership countries like South Korea, Japan, Australia, and Israel. Yes, you heard rightly, Israel.

Iran is another challenge. I think we should face it. Everybody is aware of Teheran's real intentions. I think it is important for America and its allies to work together to find a solution that fully complies with the international obligations and persuade it from becoming nuclear. A solution that will foster stability and security.

With Israel under NATO's security umbrella, deterrence will be strengthened. In my view it will have a beneficial impact. It will enhance stability.

Alternatively, having an Israel that is progressively isolated from us, NATO's allies, will increase the chances for a miscalculation of some sort to happen and which would engulf everyone into a conflict of unknown consequences.

Day after day we are witnessing that the Palestinian nationalism is being transformed into Islamist extremism. We know what Hamas victory brought to Gaza: a social order brutally based in theocracy and religious intolerance and thousands of rockets against Israel.

Israel has become the first target of the jihadist. Islamist extremism is getting closer and closer to Israel, threatening also the stability of the whole region, from Jordan to Syria. Not to mention Lebanon.

Democrats around the world cannot fight this radical tide without Israel. Israel cannot defend itself against it alone. Actually it shouldn't. We must stand together to defeat a powerful enemy.

You know, politics is a peculiar universe. Bismarck said once "politics is the art of the possible"; Margaret Thatcher added "It is the art of making possible the desirable". I tend to agree more with her than with Otto von Bismarck. Probably because as I said before, I'm an optimist.

Israel will held elections in a few days. Regardless of the outcome, Israel will continue to be an example of democracy in an area that urgently needs to enjoy a future of peace, freedom and prosperity.

Let me conclude my remarks today with some personal believes that I have developed along the years. I know very well that there are some points in time where things might seem blurry and despair easily spread. Fortunately, I know that we can overcome this with the power of good ideas. We only need moral clarity, and endurance.

I believe that terrorism should be fought and defeated and not appeased.

I believe that determination is essential to win and that victory is possible and necessary.

I believe that the most powerful enemy that civilization has is terrorism. That is why we must combat terror everywhere and I am sure that civilization will prevail.

I agree with those who look directly into the problems, and are willing to try to solve them. And I think that those who let the problems grow in order to say that there are no solutions, are wrong.

But we must put ourselves to row in the right direction. In politics, facing the economic crisis, and reinvigorating our moral principles. It is our prosperity, our liberties and our way of life what is at stake if we got it wrong.