Greece in Financial Crisis

In 2008, a local economic crisis that started in the United States spread throughout the world. The global financial crisis began when large financial firms and banks that made risky investments in the U.S. housing market found themselves facing default.

How did the 2008 global financial crisis affect Europe?

The crisis that began in the United States in 2008 affected the economies of Europe as well. European banks and investment firms also faced shortages of funds, but the problems did not end with the banks. The financial crisis led to a global recession. In countries throughout the world, businesses produced less, unemployment rose, and governments collected less in taxes. With decreased tax revenues, the governments of several European countries faced debt crises in 2009. These governments struggled to pay their bills. If these governments defaulted by not paying their bills, massive unemployment, economic crises that spread beyond borders, and political unrest could follow.

These were cases where economic stabilization funds were needed, but the political conditions in Europe meant that the response to the crisis required coordination and cooperation. Beginning in the early 1950s, European countries had worked to unify their economies into a single economy by adopting shared laws and regulations. The purpose was not only economic. It was also an effort to avoid the political conflicts that had led to two world wars. The result of these efforts was the formation of the European Union (EU), comprised of half a billion people in twenty-eight countries.

Nineteen of the twenty-eight countries in the European Union, including Greece, share a currency called the "euro." These countries belong to what is called the "eurozone." Europe's leaders were concerned that the economic crisis could lead to some countries leaving the eurozone and even the European Union.

Definitions

Default—Default means failing to pay one's bills.

Recession—A recession is a period when economic output declines.

Revenue—Revenue is government income, usually from taxes.

Economic stabilization funds—These are bailout loans to prevent countries from defaulting on their debts.

Budget deficit—A budget deficit occurs when a government spends more money than it takes in.

Austerity—Austerity refers to sharp cuts in government spending to reduce a budget deficit.

Why did Greece need economic stabilization funds?

In the early 2000s, Greece's economy had grown rapidly. The Greek government had a large budget deficit, but because the economy was doing well the deficit was not an immediate problem. During this period, investors and banks from around the world had been willing to lend money to Greece. When the global recession hit in 2008, government revenues fell sharply. Investors and banks worried that Greece would default and refused to lend it more money.

Greece's government needed a bailout to prevent default and massive economic hardship for the people of Greece. If Greece were to default, it might also give up using the euro as its currency and return to printing its own currency. Politicians and economists worried that if Greece defaulted, other countries with struggling economies like Italy, Spain, Portugal, and Ireland might default as well. This could cause further damage to both the European Union and the world economy. In addition, some experts believed that these crises could lead to the end of the euro as a shared currency and damage the political unity of Europe.

The European Union (EU), the European Central Bank (ECB), and the International Monetary Fund (IMF) agreed to provide bailout funds to Greece. (The United States provides about 17 percent of IMF funds and is its most influential member.) The IMF, the ECB, and the EU have provided Greece with a series of bailout loans worth more than $270 billion, with Europe providing most of the funds. In return, the Greek government agreed to an austerity program that cut spending, increased taxes, and reduced the budget deficit.

> ***"The Greek people are making major changes and big sacrifices to return their country to financial health and economic competitiveness. And while those changes and sacrifices are certainly painful, they are necessary."***
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> —U.S. Secretary of State Hillary Clinton, October 27, 2011

What are the controversies surrounding the response to Greece's debt crisis?

The austerity measures required to receive the loans are extremely unpopular among Greek citizens because of the economic hardship and job losses they have caused. Thousands of government-funded jobs and programs have been cut. There have been widespread and frequent protests against the government's decision to accept the conditions. Some of the protests have turned violent.

> ***"I've been in this job for more than twenty years. Who's going to employ me after this? No one will give me work and I can't retire. I'm finished."***
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> —Manos Stefanakis, fifty-three-year-old school janitor, July 16, 2013

Critics have said that the loans helped protect wealthy investors and spread the economic hardship among ordinary citizens of Greece who bear the brunt of the austerity measures.

May 1, 2010. In Athens, Greece, police arrest a protester demonstrating against the austerity program. There have been hundreds of demonstrations and protests in Greece and throughout Europe against EU and IMF policies in recent years.

Greece's economy began shrinking in 2007, and by 2015 it still had not recovered. In 2013, unemployment peaked at 28 percent. (For comparison, during the Great Depression of the 1930s, unemployment peaked in the United States at around 24 percent.) Young people have been especially hard hit—59 percent of young adults under the age of twenty-five were unemployed in 2013.

In the summer of 2013, the IMF released a report acknowledging that it had underestimated the negative impact austerity measures would have on the Greek economy. The IMF's report acknowledged that it had made mistakes in its approach to the Greek debt crisis. But European countries still do not want to provide the funding for Greece's bailout without assurance that the country is working to pay its own debts.

In an election in January 2015, a political party called SYRIZA won most of the seats in the Greek parliament, after running a campaign that promised an end to austerity. Alexis Tsipras was sworn in as prime minister later that month.

The excitement around the "anti-austerity revolution" did not last long. The nineteen countries that use the euro called an emergency meeting in February since the deadline for the bailout contract was approaching and Greece was not yet able to repay its loans. Because a Greek default on loans and national bankruptcy would be problematic for the whole of Europe, the agenda for the meeting was deciding on steps forward. If the bailout was to be extended, what would be the terms? If Greece would not accept austerity terms, what would be the consequences?