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Crisis in Greece: Political Implications

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Overview

What began as a debt crisis in Greece in late 2009 has evolved into a political crisis that many analysts believe could represent the [most significant setback](#) in over 60 years of European integration. Since 2009, Greece, its fellow European Union (EU) members, and the International Monetary Fund (IMF) have taken unprecedented steps in an effort to prevent a Greek default and ensure that Greece remains a member of the EU's 19-member common currency area, the Eurozone. Officials have argued that a default and possible exit from the euro could have [disastrous economic consequences](#) for Greece, have negative repercussions for the broader European and global economies, and present a major challenge to European institutions. Key European leaders have consistently reiterated German Chancellor Angela Merkel's conviction that "[if the euro fails, Europe fails](#)," reflecting their belief that possible "Grexit" from the Eurozone, the EU's flagship project, could seriously [undermine the integrity](#) of the Eurozone and even the EU itself.

Nonetheless, a series of events in late June/early July have led analysts to declare that a possible "Grexit" from the Eurozone is increasingly likely. On June 30, Athens failed to make a scheduled \$1.7 billion payment to the IMF. Greek banks have been closed since June 29 and are not expected to reopen until at least July 9. In a July 5 referendum, Greeks voted to support a government negotiating position that Greece's creditors have rejected repeatedly.

For additional background on the Eurozone crisis, see CRS Report IN10295, [Economic Crisis in Greece](#), and CRS Report R42377, [The Eurozone Crisis: Overview and Issues for](#)

Political Dynamics in Greece

Greek Prime Minister Alexis Tsipras was elected in late January 2015 following a campaign in which his far-left, anti-establishment Syriza party pledged to remain in the Eurozone, but reverse austerity measures taken by previous governments and secure debt relief from Greece's creditors. Syriza's electoral success reflected strong opposition to deep spending cuts and economic reforms that many Greeks viewed as being imposed unjustly by Germany and other key creditors.

Greece's European creditors and the IMF, however, have insisted that additional financial assistance requested by Greece be contingent on a clear commitment from Athens to continue economic reforms and spending cuts. Tsipras [has rejected the terms](#) offered by Greece's creditors, arguing that accepting them would condemn Greece to further economic calamity and violate the mandate he was given by voters.

On June 26, Tsipras announced that Greece would [hold a referendum](#) on July 5, asking voters to decide whether his government should accept the terms being offered by its creditors. On July 5, Greeks voted against the creditors' offer by a margin of 61.3% to 38.7%. Tsipras and his government campaigned heavily for a "no" vote, arguing, among other things, that it would strengthen Greece's hand in continued negotiations by providing a clear mandate to seek more favorable terms from creditors.

Following the referendum, Tsipras outlined two top priorities: to reopen Greece's banks and to resume negotiations with fellow Eurozone members on a new assistance package. Both will require the cooperation of European officials who previously suggested that a "no" vote in the referendum would be considered a vote against Eurozone membership. Tsipras insists that he supports membership, but with more economic policy flexibility.

The Greek government now faces an unprecedented and complex situation. On the one hand, many in Europe and elsewhere believe Tsipras has brought his country closer than ever to a possible exit from the Eurozone—an outcome [he and a majority of Greeks say they are against](#). On the other hand, in order to remain in the Eurozone, his government needs and is requesting additional financial assistance from creditors whose final offer he recently publicly campaigned against. Many analysts argue that in order to regain the trust of fellow European leaders and achieve his stated objectives, Tsipras will need to offer additional concessions to creditors. However, he and Greek voters have also demonstrated clearly that they view such concessions as too high a price to pay for continued membership.

Political Dynamics in the EU

Recent events have taken the EU and Eurozone into uncharted territory. No Eurozone member has ever defaulted, and the Eurozone's founding treaty does not contain provisions for an exit from the currency union. Whatever the outcome, the crisis in Greece has exposed major shortcomings in the currency union's institutional architecture and significantly heightened political tensions and public unrest in the EU.

Key European leaders have consistently said they would do whatever they could to keep

Greece in the Eurozone. However, governments in the Eurozone's strongest economies have also faced considerable public resistance to providing financial support to Greece, which critics argue has not exercised adequate budget discipline. Recent opinion polls suggest that a majority of Germans would [support a Greek exit](#) from the Eurozone. In some countries, including France, Germany, and Italy, the broader Eurozone crisis and related economic stagnation has also boosted populist "Euro-Skeptic" political parties that question the benefits of European integration.

European leaders' reaction to the results of the July 5 referendum reflected both anxiety about the prospect of "Grexit" and frustration with Prime Minister Tsipras. Officials in Germany, Europe's largest economy and Greece's biggest Eurozone creditor, have said that the preconditions for Greece's desired negotiations over a new aid program "[do not currently exist](#)," with some going so far as to say that further negotiations were "[almost unthinkable](#)." Officials in France and Italy have taken a softer line, in keeping with their view that keeping Greece in the Eurozone must remain a top priority regardless of the difficulties in negotiating with Athens.

Implications for U.S.-European Relations

Throughout the crisis, the Obama Administration has consistently [urged its European counterparts](#) to take whatever steps necessary to ensure that Greece does not default and remains in the Eurozone. Many U.S. policymakers and analysts maintain that the crisis has already and could increasingly constrain Europe's effectiveness as a partner for the United States. The EU is not only the largest U.S. trading and investment partner, but the institution and its member states are key U.S. allies on a range of global challenges, including Russian aggression in Ukraine, the Iranian nuclear program, and instability and terrorism in the Middle East and Africa. Political tensions in Europe and an almost singular focus on the Greek and broader Eurozone crisis arguably has and could continue to prevent the EU from focusing more intently on these and other key transatlantic policy priorities. In addition, a Greece that feels spurned by its fellow EU member states could [block EU decisions on key U.S. priorities](#), such as the extension of economic sanctions on Russia.

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