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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 broader political crisis in Europe that many analysts believe could result in 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. 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—including Greece's failure to make a scheduled payment to the IMF and the enactment of capital controls on Greek banks—led many analysts to declare that a possible "Grexit" from the Eurozone was increasingly likely. Such fears were at least temporarily allayed on July 13, when Eurozone leaders declared that they had reached a [provisional agreement](#) to provide Greece with additional financial assistance. Many analysts question the political and economic viability of the agreement, however, and worry that "Grexit" could still loom in the longer term.

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

Political Dynamics in Greece

Greece's economic struggles have shaken the Greek political system and fueled public resentment toward EU institutions and some fellow Eurozone members. Since late 2009, the country has had five different governments. Each has struggled—and two have collapsed—in the face of growing public pressure to halt the spending cuts and economic reforms that have been implemented in exchange for financial assistance from Eurozone creditors and the IMF.

Current 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 and secure debt relief from creditors. Since taking office, Tsipras has repeatedly argued that implementing additional spending cuts and reforms without the promise of significant debt relief would condemn Greece to further economic calamity and violate the mandate he was given by voters.

In late June, Tsipras called a surprise referendum asking voters to decide whether his government should accept the creditors' terms. Greeks [voted overwhelmingly to reject the terms](#). Many European leaders appeared to view the referendum and Tsipras's campaign for a "no" vote as an [affront](#), however. They continued to insist that Athens commit to implementing extensive economic reforms in exchange for requested assistance.

Tsipras portrayed his decision to ultimately agree to the creditors' terms for a third assistance package as choosing between the [lesser of two evils](#), with the less desirable option being a forced exit from the Eurozone. Given Tsipras' and the Greek public's demonstrated opposition to the terms, many analysts question how committed the government will be to implementing the required reforms. To win parliamentary approval of initial measures required by Greece's creditors, Tsipras had to rely on support from political opponents.

Given continued opposition to the new agreement from within Syriza, some commentators predict that Tsipras could [call snap parliamentary elections](#). Regardless of whether and when new elections are held, for the foreseeable future Greece's political landscape will continue to be dominated by fallout from the crisis. In particular, Greek voters appear to increasingly view economic policies as being [unjustly imposed on them](#) by other Eurozone members. This has raised questions about democratic accountability in the EU and has revived intra-European tensions that some observers believe could pose a challenge to further European integration.

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 has exposed major shortcomings in the currency union's institutional architecture and significantly heightened political tensions and public dissatisfaction within 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. 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 "euroskeptic" political parties that question the benefits of European integration.

Negotiations over the agreement for a third assistance package exposed deep disagreement over fundamental questions about the Eurozone's future. An apparent split between France and Germany, long considered the driving tandem force behind European integration, was cause for [particular concern](#) for many analysts. While French and Italian leaders, among others, have emphasized the geopolitical and strategic importance of maintaining a unified Eurozone and EU, German officials have stressed the importance of adhering to Eurozone fiscal rules. A widely reported perception of Germany, Europe's largest and most prosperous country, imposing further austerity and economic hardship on Greece against its will has [prompted criticism of Germany's role](#) as the Eurozone's de facto leader. Many analysts believe that lingering tensions and distrust related to the Greece crisis could cause [lasting damage](#) to the consensus-based structures and the principle of solidarity that have been driving forces behind European integration.

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 maintaining economic sanctions on Russia.

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