Financial Crisis in the European Union: The Cases of Greece and Ireland

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ABSTRACT

The 2008 eurozone financial crisis has only worsened as of summer 2011 raising questions about the economic future of the eurozone and sending shock waves through economies around the world. Greece was the first state to receive a bailout from the European Union and the International Monetary Fund, surprisingly followed only six months later by Ireland. The goal of this thesis is to analyze the challenges posed to smaller, weaker economies within the eurozone, specifically Greece and Ireland, since the recent eurozone financial crisis. This study is based on the experiences of both Greece and Ireland as very different members of the single currency. How and why did these states meet the criteria for euro convergence? To what extent was there support for the euro in both countries in the past? To what extent is there support today after the near collapse of both economies and the rescue packages brought about by the EU?

As a result of the recent financial crisis, Greece and Ireland are facing difficulties with the terms of European economic and monetary union. Since these smaller economies are, among other reasons, unable to devalue the currency in order to regain economic competitiveness as members of the single currency, they are recognizing that the eurozone’s economic structure may not adequately address their national economic vulnerabilities during times of crisis. Because of this and the worsening economic conditions in both Greece and Ireland in 2011, I hypothesize that these states are “fraying” the edges of the eurozone, or increasingly degrading the eurozone’s specific economic relationships, and demonstrating this through a growing skepticism of the economic benefits to smaller, weaker economies as members of the eurozone. Additionally, citizens of both states are indicating this skepticism by increasingly separating from the parties and policies that support eurozone membership in their states, as demonstrated by the political shifts in each state since the crisis began. In order to study the phenomenon of “fraying” and address the question of the challenges posed to the smaller, weaker economies and their incorporation into the eurozone, I analyzed the effects of the debt crisis in Greece and Ireland in terms of the EU/IMF bailouts, the austerity measures each state took in response to the crisis, and the resulting national political changes. I found that neither Greek nor Irish citizens were unequivocally growing skeptical of their membership in the single currency. In fact, citizens in both states still support the idea of the euro. However, there did appear to be a certain element of dislocation of support between these two states and the eurozone in the aversion each has to the terms of their bailouts.

The empirical work to study this question includes secondary scholarly reading, national and supranational monetary and political policy analysis, and analysis of national and supranational economic indicators. The three main topics analyzed in this study are the EU/IMF bailouts, the austerity measures taken in each state due to the crisis, and what may be the resulting national political changes. The effects of the three key issue areas discussed in this thesis are studied in both Greece and Ireland.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Figures</td>
<td>iv</td>
</tr>
<tr>
<td>List of Tables</td>
<td>v</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>vi</td>
</tr>
<tr>
<td><strong>Introduction</strong></td>
<td>1</td>
</tr>
<tr>
<td>Implications</td>
<td>1</td>
</tr>
<tr>
<td>The Question</td>
<td>3</td>
</tr>
<tr>
<td>Thesis Organization</td>
<td>6</td>
</tr>
<tr>
<td>Methodology</td>
<td>7</td>
</tr>
<tr>
<td><strong>Chapter 1: Setting the Stage</strong></td>
<td>9</td>
</tr>
<tr>
<td>The significance of Greece and Ireland becoming EU and eurozone members</td>
<td>9</td>
</tr>
<tr>
<td>Why Studying Greece and Ireland Matters</td>
<td>15</td>
</tr>
<tr>
<td><strong>Chapter 2: Greece</strong></td>
<td>19</td>
</tr>
<tr>
<td>The Crisis and Greece</td>
<td>19</td>
</tr>
<tr>
<td>Austerity and National Political Change</td>
<td>24</td>
</tr>
<tr>
<td><strong>Chapter 3: Ireland</strong></td>
<td>43</td>
</tr>
<tr>
<td>The Crisis and Ireland</td>
<td>43</td>
</tr>
<tr>
<td>Austerity and National Political Change</td>
<td>51</td>
</tr>
<tr>
<td><strong>Chapter 4: Conclusion – Fraying at the Edges?</strong></td>
<td>64</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>70</td>
</tr>
</tbody>
</table>
List of Figures

Chapter 2: Greece

2.1a Greece – Government expenditure and revenue 20
2.1b Ireland – Government expenditure and revenue 20
2.2 PASOK and New Democracy Vote Estimate 29
2.3 What is your opinion of the European Union? (by vote percentage in 2009 parliamentary elections) 31
2.4 Memorandum: For or Against? 33
2.5 What is your opinion of the European Union? 34
2.6 What is your opinion about the euro? 2010-2011 35
2.7 What is your opinion about the Euro? (By Party) 36
2.8 In your opinion, if Greece left the Eurozone and reverted to the drachma, things for the country would be somewhat better, somewhat worse, would not change much/would stay the same? 37
2.9 What is your opinion of the European Central Bank? 38
2.10 What is your opinion of the International Monetary Fund? 38
2.11 Do you believe that the International Monetary Fund should probably remain in Greece or probably leave Greece? 39
2.12 How much responsibility do the following bear for Greece’s debt? 41

Chapter 3: Ireland

3.1 Private Sector Credit Growth (y-o-y %) and Household Debt (% of GDP) 46
3.2 Trends in Satisfaction with Government 53
3.3 Trends in party support (by party) 54
3.4 In order to reduce the budget deficit, do you think the incoming government should concentrate on…? 55
3.5 In order to reduce the budget deficit, do you think the incoming government should concentrate on…? (by party) 59
3.6 Which of these was most important to you in making up your mind how to vote in this election?  

3.7 Should the next Government attempt or not to re-negotiate the terms of the IMF/EU bail-out?  

3.8 If the next Government were to try and re-negotiate the terms of the IMF/EU bailout, how likely or not do you think they would be to succeed?  

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**List of Tables**

**Chapter 2: Greece**

2.1 Consolidation measures in the authorities’ programme  25
### List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
</tr>
<tr>
<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
</tr>
<tr>
<td>CPGB</td>
<td>Communist Party of Great Britain</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>ECSC</td>
<td>European Coal and Steel Community</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community</td>
</tr>
<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
</tr>
<tr>
<td>EMS</td>
<td>European Monetary System</td>
</tr>
<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EUR</td>
<td>euro</td>
</tr>
<tr>
<td>EUROPOL</td>
<td>European Law Enforcement Organization</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>MIFID</td>
<td>Markets in Financial Instruments Directive</td>
</tr>
<tr>
<td>ND</td>
<td>New Democracy</td>
</tr>
<tr>
<td>PASOK</td>
<td>Pan-Hellenic Socialist Movement</td>
</tr>
<tr>
<td>SEA</td>
<td>Single European Act</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
</tbody>
</table>
Introduction

The goal of this thesis is to analyze the challenges posed to Greece and Ireland as smaller, weaker economies within the eurozone since the 2010 European sovereign debt crisis. As a result of the recent financial crisis, Greece and Ireland are facing difficulties with the terms of European economic and monetary union. Since these smaller economies are, among other reasons, unable to devalue the currency in order to regain economic competitiveness as members of the single currency, they are recognizing that the eurozone’s economic structure may not adequately address their national economic vulnerabilities during times of crisis.

Because of this and the worsening economic conditions in both Greece and Ireland in 2011, I propose that these states are “fraying” the edges of the eurozone, or increasingly degrading the eurozone’s specific economic relationships and demonstrating this through a growing skepticism of the economic benefits to smaller, weaker economies as members of the eurozone. Additionally, citizens of both states are indicating this skepticism by increasingly separating from the parties and policies that support eurozone membership in their states, as demonstrated by the political shifts in each state since the crisis began. This concept of fraying is studied in terms of three key issue areas. The first area is the experience each state has had with the crisis and subsequent bailouts; the second, austerity measures taken as a result of the crisis; and the third, resulting national level political change in both Greece and Ireland including negative shifts in public opinion about each state’s participation in the single currency and how this opinion may affect the national elections.

Implications

The European Union is possibly the most ambitious attempt at supranational organization in history. The original idea was “[…] that rival nation states can do better by pooling some sovereignty instead of going to war” (The Economist, 2010c, p. 1). As the idea developed, it became clear to those states participating in the original integration project that political union should be the ultimate goal in the search for both political and economic stability. Of course, no sovereign state was willing to irrevocably cede power from its own government. Union became an ever-evolving process that began with economic union. Because of the 2008-2011 financial and economic crisis, the current economic and monetary union has come into question given the difficult economic conditions faced by the eurozone’s smaller economies.
The 2008 economic crisis has revealed deep divides among members of the eurozone and the European Union in terms of what should be done in case of an economic crisis of this magnitude. More importantly, the crisis has forced the Union to take a hard look at the current state of its economic and monetary policy. The crisis has demonstrated that current policy may not be enough to keep the single currency afloat. The question becomes, what does the Union do about it? In the meantime, how do eurozone states that are struggling economically rethink, if at all, their membership in the eurozone or even the EU given the constraints put on their economies with the adoption of the euro that would not otherwise control their economic activity?

Furthermore, what is at stake if Greece and Ireland are indeed beginning to rethink their membership in the single currency? In addition to the special relationship between European Union member states, the euro further tightens the weave of the European cloth and deepens the economic relationship to an unprecedented level among 17 of the EU states. As with any seemingly tightly woven fabric, once one of the structural elements begins to pull from the whole (Greece), it is not long before others follow (Ireland and later, Portugal). Following this logic and given the potentially growing skepticism of the benefits of euro membership, if the economic relationship between Greece and Ireland and the single currency continue to degrade, the whole eurozone has the potential to unravel. This may not only further economically endanger those states at the periphery, but also endanger those states that make up the core of the eurozone. Based on the experiences of both Greece and Ireland, current evidence provided in this study implies that what is happening in the eurozone may be a gradual unraveling of the single currency’s economic relationships from the outer edges not necessarily a weakening of these relationships in the zone’s largest and wealthiest core.

By focusing on the Greek and Irish economic crises, I expect to add to the current discussion within political science regarding the future of a European Union without closer financial or political ties. As a member of the eurozone that had to comply with particular prerequisites in order to become a member, Greece should not have encountered a situation in which a bailout was necessary. Or, if a bailout was necessary, the crisis should not have endangered the economic stability of other members of the eurozone because of the risk of contagion to other members. Ireland, on the other hand, should not have been in danger of becoming the next Greece, given its seemingly, perhaps deceptive, sparkling economic
reputation.

These two states have not been closely studied in relation to the economic crisis. Both based their economies on risky behavior. While Greece masked its debt problem, Ireland bet on bank loans, and lost; and neither country expected that this might raise an enormous European problem in terms of challenging the stability of the euro itself. I believe the issues both cases raise can shed light on what the future may look like for economic and monetary union among European states and the European Union as a whole.

This work is geared toward scholars in both comparative politics and political economy. Comparative political scholars may be interested in the comparisons established between Greece and Ireland as separate states dealing with a similar crisis circumstances, and between Greece and Ireland as states and the European Union as a supranational organization. Those in the field of political economy might be particularly interested in how the economic and monetary regulations of the eurozone and the European Union have had an effect in Greece and Ireland on a more local level, not to mention the economic and political risks taken by each state to become members of the eurozone from the beginning.

The Question

The 2010 European sovereign debt crisis has proven to be the most extreme test of the single European currency, the euro, since it came into existence in 1999. The 1992 Maastricht Treaty paved the way for a monetary union, and on January 1, 2002, 12 participating states introduced the euro notes and coins as their newly adopted currency, gradually phasing out their old national currencies. However, there is more to the idea of the euro than a tangible currency unit. The euro was a giant step forward in the European integration process since its beginning as the European Coal and Steel Community (ECSC) after World War Two. Monetary union represents in a powerful way the further commitment to a stable, united, and peaceful European continent as envisioned by the originators of the idea of European integration.

The creation of the euro provided several benefits for European Union member states, including access to much larger trade markets and a stronger currency with lower interest rates. Whatever the benefits, the consequences of being a member of a single currency union became clear after the crisis. Several states came to stand out as dangerously at risk of defaulting, or becoming unable to make payments on their massive levels of national debt, regardless of their
Before each candidate state could adopt the euro as its national currency, strict prerequisite controls set by the Maastricht Treaty had to be met, including controls on inflation rates, deficit, debt, exchange rates, and interest rates. These controls were established to protect the economic stability of other EU states that use the euro, allowing a common currency across sovereign states. During the recent economic crisis, the reputation and economic stability of the national power players within the eurozone, like Germany and France, were threatened after it became apparent that other eurozone states’ levels of debt were simply unsustainable, and large bailouts would be required in order to spare the at-risk states from default. On another level, something had to be done to protect the global image of the eurozone as a trustworthy currency bloc and the European Union as a whole as a solid, united supranational organization.

PIIGS is the acronym for Portugal, Ireland, Italy, Greece, and Spain, the five states most at risk of default with the most unsustainable percentage levels of debt and deficit in relation to their own gross domestic products. Greece is perhaps the best known of these states for being the first to require emergency assistance from the European Union and the International Monetary Fund during the crisis. While it was obvious early in the crisis that Portugal, Italy, and Spain would face a tough challenge staring down their own debts combined with fears that trouble in Greece would spread to these states, Ireland was only added to the equation later. Although most expected the Irish economy to live up to its reputation as the “Celtic Tiger” and respectably pull through the crisis, Ireland began inching ever more towards the default cliff as it seemed evident that the cost to bailout its troubled banks would be exorbitant.

Greece and Ireland are very different states culturally and socially, and the Irish and Greek economies reflected very different characteristics before the crisis, even before joining the European Community. Although in 2009 and 2010 they experienced and dealt with the crisis in different ways, both states are now still struggling, Greece in coming to terms with the truth about its economic statistics, reining in massive public sector spending, and continually losing the confidence of investors, and Ireland with the nationalization of its biggest banks and the resulting debts. How could a Union dedicated to a reputation of strength and unity have allowed these states to get into such danger?

The unevenness across the eurozone in experience with the crisis is a central concern of this study. What does this unevenness say about how well or how insufficiently the current
monetary union addresses issues of national economic vulnerability? Perhaps the answer lies in what many consider to be an original flaw of the single currency: monetary union without stronger political and fiscal union.

This study is based on the experiences of both Greece and Ireland as very different members of the single currency. To what extent was there support for the euro in both countries in the past? To what extent is there support in 2011 after the near collapse of both economies and the rescue packages brought about by the EU? Both Greece and Ireland seemingly benefitted economically and politically when they joined the EC and the euro, and the European Union benefitted as a whole in some ways as well. Yet what good are these benefits when an economic crisis can challenge the whole idea of economic and monetary union not just for Greece and Ireland, but also for the entire supranational organization?

What I propose in this study is a rethinking of the challenges posed to smaller, weaker economies, particularly Greece and Ireland, on the basis of their incorporation in the eurozone and in regard to the current European sovereign debt crisis. As members of the European Union and the eurozone, the fact that Greece and Ireland are struggling speaks to the possible inadequacies with the single currency and the political resolve of the Union as a whole towards supporting smaller economies. Joining the eurozone may have resulted in multiplying economic risk and increasing the economic vulnerability of these two states. I predict that because of the 2010 financial crisis, these states are “fraying” the edges of the eurozone as a collective entity, or increasingly degrading the eurozone’s specific economic relationships and demonstrating this through a growing skepticism of the economic benefits to smaller, weaker economies as members of the eurozone. Additionally, citizens of both states are indicating this skepticism by increasingly separating from the parties and policies that support eurozone membership in their states, as demonstrated by the political shifts in each state since the crisis began.

I conceptualize fraying as a “disease” at the edges, with Greece and Ireland as the “sick” economies degrading the economic health of the eurozone. Driving this concept is the poor economic condition of these two states, thus the weakening of support and the growing skepticism with the idea of the single currency, especially in regard to the membership benefits to smaller economies and the supranational ties and organizations that bind states like Greece and Ireland to the eurozone and the European Union, including economic support from the European Central Bank and access to the enormous European market system. I expected to find
that Greek and Irish citizens were increasingly skeptical of their membership in the single currency and possibly even the European Union. In addition, I expected to see a reflection of this skepticism in the political change that occurred in each state in 2011, including negative shifts in public opinion about each state’s participation in the single currency and how this opinion may have affected national elections.

**Thesis organization**

This thesis is divided into five chapters, this introduction, a chapter dedicated to establishing the foundation for Greece and Ireland’s experiences during the crisis as EU members, a chapter dedicated to Greece, a chapter dedicated to Ireland, and a concluding chapter. Chapter 1 begins to discuss the historical, political, and economic foundations for Greece and Ireland’s experiences as EU members before and during the crisis. The chapter highlights why it was significant for each of these states to strengthen their international ties and become members of the European Union and ultimately the eurozone. Chapter 1 also demonstrates why a study of Greece and Ireland and their experiences with sovereign debt crisis is important in terms of the future stability of the eurozone and the political resolve of the EU.

The chapters on Greece and Ireland are very similar in structure. The main issues discussed in both chapters are, first, how the debt crisis came about in both states, what internal situations fueled the flame, and the terms of the EU/IMF bailouts each state ultimately received. The second issue is the effects that the debt crisis and the bailouts had on austerity measures taken in each country and resulting national political changes and pressures, especially in 2011. It is important to reiterate that these states have experienced the crisis differently, so while the structure of the chapters is identical, issue details will vary. For example, Greece began the bailout process about seven months before Ireland, so the chapter on Greece may be more complete in information and up-to-date given the longer amount of time Greece has had to manage the effects of and generate data on the bailout funds.

The concluding chapter situates the question of this study back into the big picture. What is happening in these two states, and what does this say about the integrity of the eurozone? Are Greece and Ireland fraying the edges of the eurozone? If so, how can the nature and extent of support for the single currency in Greece and Ireland give insight into how it is happening? Conclusions are based on the analysis of specific public opinion data from each state that help
illustrate public reaction to the three issue areas outlined in this study: the EU/IMF bailouts, the austerity measures taken in each state due to the crisis, and what may be the resulting national level political changes. The thesis ends by outlining the implications of this study’s results and highlighting possibilities for further research on the stability of the eurozone and the political future of the EU.

Methodology

The empirical work to study this question includes existing scholarship, national and supranational monetary and political policy analyses, and analysis of national and supranational economic indicators. The three main topics analyzed in this study are the EU/IMF bailouts, the austerity measures taken in each state due to the crisis, and the resulting national political changes. The effects of the three key issue areas discussed in this thesis are studied in both Greece and Ireland. Thus, this research is based on a review of three types of literature: first, scholarly historical and current perspectives on EU accession, convergence to the euro, and the debt crisis; second, economic statistics relevant to these time frames; and third, news sources dedicated to the crisis and resulting political and economic issues as they unfolded.

Historical information is found mostly in scholarly books and journals, and news sources, including national newspapers and news magazines. However, the European Commission provides many sources online from actual treaties and agreements to specific information related to each member state, for example, the European Economy Occasional Papers. The economic statistics can be found from several sources, e.g. Eurostat, the United Nations, the International Monetary Fund, and the national statistics offices of each state, which have their own websites. Finally, the news sources dedicated to the crisis as it unfolded include national newspapers (The Irish Times, Irish Independent, Kathimerini, Athens News), newsmagazines (The Economist, Bloomberg Business, Newsweek), and news websites (BBC News, The Wall Street Journal Online, The Financial Times Online). No form of fieldwork was required for this research.

It is important to split the economic indicators for Greece and Ireland into two time frames. The first begins before euro convergence and ends at the end of 2007 in order to be able to demonstrate the relationship between euro convergence and economic performance. The other time frame begins in 2008 and goes through 2010 and into 2011 (the years of the crisis). This

1 europa.eu is the official website of the European Union.
split is demonstrated by the organization of the thesis: Chapter 1 addresses each state’s accession into the EU and inclusion into the eurozone, and Chapters 2 and 3 will address each state’s experience during the crisis. Although effects of the crisis will certainly extend beyond 2010, 2010 is the last full year of economic statistics before the completion of this research. Therefore, only trends in the first half of 2011 can be analyzed. This is a particular limitation of this study in that the bailouts and the mechanisms through which the EU is applying them are relatively recent, and therefore their ultimate outcomes and how Greece and Ireland are dealing with them cannot yet be determined or studied.

The data in this research is almost exclusively qualitative. However, there are quantitative elements because of the importance of economic indicators. The analysis of debt, deficit, unemployment, and economic growth is undertaken solely by means of the comparison of numbers already generated by reliable economic sources.

While this study focuses on the effects of the sovereign debt crisis on Greece and Ireland as members of the EU and the eurozone, it is also crucial to briefly discuss other clusters of influences that had a hand in the financial crisis, for example, the subprime mortgage crisis in the United States. This latter crisis unearthed vast amounts of faulty mortgages, ultimately creating a liquidity crisis in major banks around the world, including Ireland and other EU member states. Other influences include risky and sometimes-underhanded business practices by major global financial institutions, for instance, the relationship between Goldman Sachs and Greece. There is more to the European debt crisis than the problems with monetary union, and those issues should be noted.
Chapter 1: Setting the Stage

This chapter seeks to highlight the significance of Greece and Ireland becoming EU and eurozone member states. The goal is to establish both the historical, political, and economic foundations upon which to build the story of Greece and Ireland’s experience with the crisis and how the European Union as a whole has dealt with the threat of eurozone state default. As mentioned in the Introduction, the political and economic backgrounds of these two states are important to the analysis of how each has experienced the crisis in terms of the bailout, austerity measures taken as a result of the crisis, and resulting national political changes.

The significance of Greece and Ireland becoming EU and eurozone members

Ireland became a member of the European Community in 1973 during an energy crisis and a global recession. EC membership was economically attractive for Ireland during this time because the Irish government was pushing a national project of modernization and expected to be able to benefit from a much larger market where Irish goods could be sold abroad for higher prices (Laffan, 2003; Rees, Quinn, and Connaughton, 2009). Politically, membership in the European Community meant being able to pull away from the United Kingdom, a state Ireland had come to depend on reluctantly (Rees, Quinn, and Connaughton, 2009). This had a particular effect in bolstering traditional concerns of Irish nationalism (Laffan, 2003).

Ireland was less developed than other European economies like Germany and France, and primarily agriculture-based before membership. As Laffan (2003, p. 248) states, “EU membership was about providing Ireland with the opportunities to ‘catch-up’ economically with mainstream Europe, to make Ireland more like urbanised, industrialised Europe and thus less like the kind of Ireland the original state-builders wanted to construct.” Membership helped Ireland open up its economy to the European market. Though this was opposite to previous protectionist principles, the hope was that it would spur both employment and economic growth. The Community’s Common Agricultural Policy (CAP) was also attractive to Ireland as an agriculture-based economy (Laffan, 2003).

The time period directly after Ireland joined the European Community was not easy,

2 According to europa.eu, the CAP “[…] aims to enable producers of all forms of food […] to survive by themselves in EU and world markets.” The CAP can provide financial support for farmers when necessary, and “[…] supplements farm income to ensure that farmers make a decent living” (Europa, 2011a, An evolving policy, Spending the money where it is most needed).
however. “[…] Ireland’s early experience with EU membership was problematic on a range of economic, social and political fronts. Ireland was not an instant success story following membership in the 1970s, while the 1980s were characterized by a period of economic stagnation, with high unemployment and little economic growth. Ireland was literally the poor relation during this period and it is only since the mid-1990s that the state has made significant economic progress” (Rees, Quinn, and Connaughton, 2009, p. 1). Brigid Laffan’s (2003, p. 250) analysis is worth quoting at length:

Domestic adaptation to the challenge of competition and Ireland’s vulnerability as a small open economy was not, however, unproblematic. Ireland had, perhaps, the worst economic performance in Europe during most of the 1980s, as a result of international recession […]. By the mid-1980s, Ireland’s economic and social strategy was in ruins and its hope of prospering in the Union was in considerable doubt. Ireland had to find the institutional and cultural capacity to overcome the failure of the 1980s. Without this the opportunities offered by the internal market and a deepening of integration would have been lost. Gradually there was a recognition by government and the key representatives of the two sides of industry that “membership of the Community does not reduce the need for clear Irish policy aims and methods. In particular, membership of the Community does not diminish the need for a national ability to identify solutions to national problems – even where these required Community policies of action.” Thus a key concern of this period was to ensure that Ireland’s domestic policies were congruent with membership of a highly competitive market regime.

What is interesting in Ireland’s case is how the state managed the idea of state sovereignty during its transition to becoming an EC member. As mentioned previously, Ireland saw the European Community as an opportunity to move away from its asymmetrical relationship with the United Kingdom. However, “[i]n the Union, Irish politicians and policy-makers adapted with relative ease to the demands of multi-level governance. They had a keen sense that for a small state the ‘pooling of sovereignty’ actually enhanced autonomy and freedom of action. There were few reservations in Ireland about traditional doctrines of sovereignty” (Laffan, 2003, p. 248). One can see here that though Ireland saw particular opportunities provided by the ECs multi-level governance strategies, these opportunities were always only part of the big picture, that of what is best for the Irish state.

Greece became the European Community’s tenth member in 1981. Greece had originally applied for membership in 1975, but over those six years the Community raised several concerns
about Greek membership. For the EC, “[t]he admission of […] less developed economies with weak state structures was viewed as a potential threat to the pace and cohesion of the economic integration process” (Verney, 2009, p. 2). It is important to note that while the initial opinion of the European Commission on the accession of the Greek state to the EC was positive, the Commission “[…] proposed the institutionalization of a pre-accession transition period before full institutional integration, in order for the necessary economic reforms to take place” (Greece in the EU, 2010, The course of Greece in the European Union). This was meant to mitigate any of the potential threats of Greek accession to existing EC members because of its weaker economy.

However, the European Community also recognized how it might benefit from Greek membership because of the opportunities available in expanding “western European” borders and influence further east during that time in international politics when the containment of communism and Soviet expansion was a key western strategy. Like Ireland, Greece sought EC membership for the benefits of being able to modernize its economy but also to demonstrate its independence from its region, especially in regard to the threat from Turkey and the Turkish invasion and occupation of Cyprus in 1974 (Greece in the EU, 2010). The European Community was seen as providing a stabilizing force in foreign policy in addition to a source of financial assistance in regard to the need for infrastructure-building (Frangakis and Papayannides, 2003).

Political support for Greek accession was more positive. Certainly for Greece, accession seemed more for political benefit and less for economic benefit (Tsinisizelis, Michael, 2008). According to the Greek Ministry of Foreign Affairs, it was important that Greece had a presence in the process of European integration, for Greece saw itself as a European country (Greece in the EU, 2010). Today, membership has provided positive effects overall for Greek politics, including, some argue, a more open, transparent, and less centralized political system (Tsinisizelis, Michael, 2008).

National accession to the European Union is a process that has occurred periodically since its inception as the European Economic Community in the Treaty of Rome (1957). The European Economic Community gradually morphed into a more politically connected body, The European Community. Then, greater levels of political and economic integration, including the beginnings of monetary union, saw the formation of the current European Union. The eurozone was formed from those EU states that sought to unite monetarily. Twelve EU states were the first
to accept the intensive conversion criteria set out by the Maastricht Treaty to ensure that each national economy could handle the shift.

The Maastricht Treaty paved the way for economic and monetary union (EMU) during a time when the European Community was experiencing growing economic and financial commonality. The Community had previously established a common market of tariffs and quotas, then a single market with more intensive integration, a common labor market with the Schengen agreement, a capital market with MIFID, and finally, with the Maastricht Treaty, a plan for EMU.³

Transaction costs and exchange rate risk, associated with different national currencies, constituted barriers to intra-EU trade similar to the physical frontiers and the technical obstacles that the Single European Act (SEA, 1986) and the single market programme aimed at eliminating. [With economic and monetary union, the] removal of the physical, technical and monetary barriers was thus expected to boost trade and financial integration among participant states and to generate a virtuous circle of “one market-one money-one market” (Buti, Deroose, Gaspar, and Martins, 2010, p. 7).

The Maastricht Treaty established four convergence criteria necessary for each state to meet before they may adopt the single currency:

1.) The inflation rate must not exceed by more than 1½ percentage points that of the three best-performing Member States in terms of price stability during the year preceding the examination of the situation in that Member State.

2.) The annual government deficit must not exceed 3% at the end of the preceding financial year, and the ratio of debt to GDP must not exceed 60% at the end of the preceding financial year.

3.) A country must be a member of the exchange rate mechanism under the European monetary system at least two years before convergence, not having devalued its currency in that time.

4.) The nominal long-term interest rate must not exceed by 2 percentage points that of the three best-performing Member States in terms of price stability (Europa, 2006, Introducing the euro: convergence criteria).

Greece and Ireland were among the twelve original members that adopted the euro notes

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³ MIFID, or the Markets in Financial Services Directive 2004/39/EC, “[…] sets out a comprehensive regulatory regime covering investment services and financial markets in Europe. It contains measures which […] change and improve the organisation and functioning of investment firms, facilitate cross border trading and thereby encourage the integration of EU capital markets” (Europa, 2007, What is the “MiFID”?).
and coins on January 1, 2002. Currently, the euro is the national currency of seventeen different European states. Membership in the eurozone provides several benefits including protection from destabilizing currency swings and stimulated trade and investment between eurozone states. Another benefit is that “[…] manufacturers across the [eurozone] no longer have to deal as frequently with multiple currencies. The savings that this foregone cost of changing currencies implies may not be great, but are not negligible either” (Jones, 2009, p. 47). However, the removal of exchange rate risk does not make up for other difficulties that separate nations may experience with the euro. Different states will handle regulations of particular characteristics differently, including the regulations applying to financial intermediaries, tax treatment, and standard business conventions (Buti, Deroose, Gaspar, and Martins, 2010).

Another risk in joining the eurozone involves losing the opportunity to devalue currency to increase competitiveness: a process prohibited by the eurozone, yet dangerous for inflexible economies. Some of the most inflexible economies with the weakest economic outlooks that were interested in convergence to the euro early on were in “Old Southern Europe” (Portugal, Italy, Greece, and Spain). Many worried that such inflexibility ultimately would weaken the eurozone as a whole (Verney, 2009).

Several states made hard-fought efforts for their economies to meet the criteria for convergence to the euro, and once in, nearly all began to do well as a result of the low interest rates the euro offered. However, once members of the eurozone some states either dropped such efforts outlined in the Maastricht criteria to strengthen the economy, or were discovered to have deficit levels that did not meet the criteria at all. The boom from lower interest rates ultimately veiled this vulnerability (The Economist, 2009; Jones, 2009; Story, Thomas, and Schwartz, 2010; Verney, 2009). The Southern Four (Portugal, Italy, Greece, and Spain) also were able to hide behind the fact that financial markets assumed that the risk of public debt was very similar in all eurozone states, not taking into account national vulnerabilities.

It was discovered later, especially in Greece’s case, that some of the economic statistics (e.g. deficit to GDP) did not in fact meet the Maastricht criteria before adoption of the euro (Verney, 2009). “Rather than raise taxes or reduce spending, however, these governments artificially reduced their deficits with derivatives. […] In Greece, the financial wizardry went

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4 Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain
even further. In what amounted to a garage sale on a national scale, Greek officials essentially mortgaged the state’s airports and highways to raise much-needed money” (Story, Thomas, and Schwartz, 2010, p. 1). The Greek economic crisis seems to have had its origins several years before 2008.

Ireland’s experience with the Maastricht criteria was a bit less strenuous. “[…] the government’s economic policy approach was in accord with that being adopted at EU level, given its commitment to low inflation and low interest rates, tight controls on government borrowing and on the ratio of public debt to national income, and a stable exchange rate” (Rees, 2009, p. 98). Ireland desired to be a member of the eurozone for several reasons, including the ease of comparing prices and the price stability offered by a single currency in trading with other European states. On the other hand, Ireland also had its problems with convergence. The Irish government adopted an inflationary budget in 2000, leading to a reprimand from the European Commission and censure by the Economic and Finance Council of Ministers. “This highlights the role of the European Central Bank, which decides on monetary policy, sets interest rates, controls the supply and production of new currency and manages inflation” (Rees, 2009, p. 98).

Historical information about the accession of both Greece and Ireland to the European Community and their subsequent membership in the eurozone is abundant. The European financial crisis, however, is fairly recent with much less written on the topic. Much of the existing literature on the crisis speaks broadly about its economic characteristics and the actors involved. Several attempts address the crisis in the southern European states of Portugal, Italy, Greece, and Spain, where it was clear early on that these states would have the most difficult experience coping (Verney, 2009). There seems to be limited scholarship that connects Greece and Ireland as important cases in terms of membership in the eurozone and the financial crisis. Ireland’s risk only very recently drew concern when it became clear in September 2010 that Irish banks needed much more support from the Irish government due to their lending-spree. Information is scarce on this most recent occurrence outside of Irish government documents and news sources.

It is important not to think of the European sovereign debt crisis as an isolated event, but as a continuation of a banking and economic crisis that impacted most of the world. Two factors helped bring about the global crisis: the modernization of banking practices, which has allowed financial institutions to operate on an international scale using advanced profit seeking methods
unheard of only a couple of decades earlier, and globalization, which expands particularly western, capitalist economic concepts and practices all over the world. These concepts, which herald open and free market systems, make exposure to international financial and business markets a reality for any state desiring to shape its economy accordingly (Lewis, 2010; Stiglitz, 2010, p. xi, 152-153).

Indeed, the global financial crisis was created in large part by the American sub-prime mortgage crisis, freezing liquid assets of banks in the United States and around the world. Other factors include “[…] the mispricing of risk in a context of dynamic financial innovation, the change of the finance model from ‘originate-to-hold’ to ‘originate-to-distribute’, failed risk management and governance structures in global institutions, flaws in the rating agencies’ business model, compensation schemes that provided inappropriate incentives to bank managers, inadequate regulatory supervisory and surveillance frameworks, housing bubbles, inflated financial assets and long-standing unsustainable external imbalances” (Buti, Deroose, Gaspar, and Martins, 2010, p. 27). For Greece and Ireland, flaws in the ratings agencies’ business model, inadequate regulatory supervisory and surveillance frameworks, housing bubbles, and inflated financial assets are all particularly relevant.

Why Studying Greece and Ireland Matters

The widening spreads between Greek and Irish sovereign bonds and German bonds is indicative of the decrease in confidence that investors have in the ability for the Greek and Irish governments to steer clear of default. While Greek financial statistics have almost always been in question, investors found confidence in knowing that Greece used the euro, a currency backed by the European Central Bank, one of the most influential banks in the world. The Celtic Tiger of Ireland held investors’ confidence because it had demonstrated its economic growth ferocity, aside from also being a eurozone state.

Confidence drives the modern free market system, and Greece and Ireland are experiencing shifts in sovereign confidence that threaten their membership in the eurozone and even challenge the eurozone as a whole. “In short, too much attention has been devoted to the safe haven effect of eurozone membership, and too little attention to the impact of permanently weak economic growth on fiscal solvency” (Tilford, 2009, p. 6). Some argue that being a member of the eurozone during the financial crisis was a much better alternative than facing the crisis with a
separate national currency. The arguments even suggest that the result of the crisis is more likely to have a positive effect on European integration (Jones, 2009; Tilford, 2009; Verney, 2009). As Tilford (2009, p. 3) states:

There is little doubt that small member-states, especially those with big banking sectors such as Ireland, would have had a horrid time in 2008 were it not for their membership of the euro. If national currencies had been retained, a number of smaller member-states would almost certainly have suffered severe foreign exchange crises on top of everything else. The volatility of European currencies which have remained outside of Economic and Monetary Union (EMU), such as the pound, cannot help but have a destabilising impact on trade and investment. The euro has insulated its members from this kind of volatility and also allowed fiscally weak member-states to borrow more cheaply than would have been the case had they not been members of the single currency.

The new worry, however, is that some of the benefits of joining the euro for separate states are beginning to come undone. Some point to the underestimation of the problems caused by different economies responding differently to the eurozone’s common monetary policy, e.g. “[t]he sudden drop in real interest rates on joining the euro in Greece [and] Ireland […] fuelled huge spending booms[, … and r]ampant domestic demand pushed up unit-wage costs relative to those in the rest of the euro area, notably in Germany […]” (The Economist, 2010f, One money, several problems). “Worse still, Greece, like many highly indebted states, still has much to do in preparation for the costs of an ageing population and the burden on government finances that this will entail. If the Greeks are highly indebted now, this is nothing to what they face in the future” (Jones, 2009, p. 47). Can separate national economic vulnerabilities survive a struggling EMU? Joschka Fischer (2010, p. 7) explains it well:

The euro and the European Central Bank (ECB) have been bulwarks in defending monetary stability during the financial crisis. Any weakening of those institutions would cause severe damage to common European interests, but the behavior of EU member governments during the past few months raises doubt about whether they recognize that fact. As the crisis continues, it becomes obvious that the common currency and the ECB alone are not sufficient to defend the common market and European integration. Without common economic and financial policies, coordinated at the very least among the members of the euro zone, the cohesion of the common currency too is in unprecedented danger. In […] Ireland […] and Greece, confidence is rapidly evaporating. Though the stronger economies in northern Europe are doing better, they too are struggling. Should
that continue, perhaps bringing a de facto end to the Maastricht criteria and rising national protectionism in the form of industrial subsidies, the euro will be seriously jeopardized. It is easy to imagine what the euro’s failure would mean for the EU as a whole: a disaster of historic proportions.

Germany and France, the actual power players within the European Union and the eurozone, attempted to head this problem off at the pass. For Germany, France, other EU and eurozone members, and researchers on the topic, the solution to preventing further sovereign debt crises of this sort lies in some form of economic governance encompassing fiscal and political union (Elliot, 2010a; Redwood, 2010). There seems to be much disagreement, however, on how to realize such governance.

Germany seeks to focus on economic discipline by perhaps making changes to the Lisbon Treaty and strengthening the Stability and Growth Pact. “The French view is for a giant leap forward towards integration for the [17] states that use the eurozone. They favour ‘economic government’ with a powerful secretariat, a treasury that would coordinate national budgets and tax and spending. In the French dream, monetary union would morph into financial union” (The Economist, 2010b; BBC News, 2010j, p. 1). The European Financial Stability Facility forces the European Union to have these discussions on further political and financial union. “[…A]s euro members are to underwrite each other’s debts through the EFSF, it is natural that they should demand more say in each other’s budgets” (The Economist, 2010f, the fiscal fix is in). Of course, these types of decisions are impossible without closer fiscal union.

On October 29, 2010, EU leaders agreed to tough new budget rules that they hoped would protect the euro from a future Greek-style debt crisis. The new crisis mechanism will replace the temporary 750bn euro mechanism, which expires in 2013. The new mechanism seeks to “[…] force a country to put its house in order long before its economic problems threaten the eurozone. Under the rules, EU officials […] warn governments about property and speculative bubbles, and will be able to impose stringent fines on states that borrow and spend too much” (BBC News, 2010d, Treaty question). The agreement makes it very clear that the new mechanism is a substantial strengthening of the economic pillar of EMU (European Council, 2010).

As the European financial crisis highlights, Economic and Monetary Union in the EU cannot effectively operate for the members of the eurozone in its pre-crisis form. The stakes may be too high, some argue, for a monetary union without closer financial and political union. For
small economies like Greece and Ireland, access to larger markets and lower interest rates may no longer make up for the fact that without stronger financial governance from the EU and the ECB, the next crisis in sovereign confidence may be just around the corner.

For the eurozone, how much longer will the economic power players, especially Germany, be willing to rescue endangered economies that made risky moves as eurozone members? Given the growing price tag for the Germans to bailout Greece, many Germans are not concerned at all about how growing Greek and Irish skepticism of the euro can impact the stability of the single currency but are concerned about their own economic situation in relation to the euro. *The Economist* (2011e, p. 1) explains the German Chancellor’s situation, “[…] nothing is more dangerous to her than the euro crisis. [Mrs.] Merkel has tried to help indebted euro members while refusing to write blank cheques. But the markets have repeatedly tested that approach, requiring ever larger and more elaborate [bailouts].”

Not surprisingly, there is a growing worry in the Bundestag (Germany’s lower house of parliament), especially in Merkel’s own party, that the billions in German loans through the EFSF will not be repaid. It is important to understand Germany’s trepidation to fund further bailouts. However, as of mid-September 2011, the Bundestag had enough votes to approve the passage of a piece of legislation that outlines the expansion of powers for the EFSF, including a vote on a second bail-out of Greece, worth about €109 billion, and a vote on a permanent successor to the EFSF (*The Economist*, 2011e, p. 1). Furthermore, the main opposition parties in the Bundestag supported providing even more financial support to the endangered euro states, “[…] such as issuing Eurobonds jointly guaranteed by euro-zone governments,” and these opposition parties oddly found themselves leading the Chancellor’s coalition government in the polls (*The Economist*, 2011e, p. 1).

Again, it does not seem that a weakening of the eurozone’s specific economic relationships begins in the zone’s core. Though far outside the goal of this study, the stakes may be high if something is not done to bolster and strengthen the embattled eurozone in its current form, including creating questions about the future of a European Union that cannot politically sustain effective monetary integration. The next chapter begins the analysis of Greece and its experience with the crisis.
Chapter 2: Greece

This chapter will begin with a discussion of Greece’s experience with the bailout, then move into a deeper analysis that focuses on the national political change Greece experienced as a result of the crisis. The analysis of public opinion in Greece has a surprising twist that indicates that Greece may not fit so neatly into the expectations of fraying in this study. There does appear to be an element of skepticism about the membership benefits in the single currency, as demonstrated by the details of the most recent public opinion poll data on the eurozone, EU, and the Greek political parties. However surprisingly, the Greeks still largely support the overarching idea of what the eurozone and European Union stand for and their importance for Greece.

The Crisis and Greece

Greece was in a curious position within the eurozone before the crisis. The European Union had long questioned the reliability of Greek economic indicators quite likely for good reason. In Larry Elliot’s article, Greece’s Financial Crisis puts the Future of the Euro in Question, Harvard Professor Kenneth Rogoff, who published a book on eight centuries of financial crises, calls Greece a “serial defaulter.” Rogoff continues, “Since the modern Greek state was founded in 1830, the state has, on average, been in sovereign default every other year and had been through five big defaults in less than 200 years” (Elliot, 2010a, p. 1).

Although its economy boomed as a result of the flood of foreign capital and low interest rates after joining the euro, Greece still continued to spend heavily on the public sector, specifically on jobs and pension plans (The Economist, 2010a). “Lower interest rates allowed the government to refinance debt on more favourable terms: the ratio of net interest cost of GDP fell by 6.5 percentage points in the decade after 1995. The underpricing of default risk during the credit boom gave Greece easy access to longer-term borrowing. Lower interest rates also spurred a spending splurge. The economy grew by an average of 4% a year until 2008” (The Economist, 2010a, A marathon, not a sprint). As a result of overspending, the government sector in Greece grew rapidly between 2000 and 2009, though not fully paid by tax and other revenues (see Figure 2.1a). As Figure 2.1a shows, general government expenditure in 2009 was 50.4% of GDP, while general government revenue was 36.9% of GDP. Additionally, Figure 2.1a demonstrates that at least since 2000, general government revenue as a percentage of GDP has consistently remained lower than government expenditure.
In comparison, for example, to Ireland’s discrepancy between revenue and expenditure shown in Figure 2.1b, the difference in Greece was quite large, demonstrating a main discrepancy between the economies of Greece and Ireland before the crisis.

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5 The European Commission indicates that reproduction of this source is authorized provided the source is acknowledged.
6 The European Commission indicates that reproduction of this source is authorized provided the source is acknowledged.
Between 2000 and 2007, Ireland’s expenditure exceeded its revenue only once (2002). 2008 through 2009 indicate the increasing trouble Ireland was having funding its banks from the very beginning of the financial crisis.

For the most part, the Greek government was able to hide the large amount of borrowing necessary to account for overspending. Goldman Sachs, an international financial institution, may have helped Greece veil some of its debts by assisting the state in misrepresenting some of its economic statistics, demonstrating the role of other influences outside of the state and the European Union in the crisis (Clark, Stewart, and Moya, 2010; Connor, 2010). Rappeport et al. reported that “[a]s Greece’s public debt grew to exceed its annual gross domestic product, [Goldman Sachs] helped it organise a currency trade to delay its repayments while meeting European deficit limits” (Rappeport, Braithwaite, and Oakley, 2010, p. 1). These dealings between Greece and Goldman Sachs sparked an investigation by the U.S. Federal Reserve Bank once they were discovered as a result of the 2008 global economic crisis.

Wall Street as a whole had a hand in exacerbating Greece’s economic problems before the crisis. “[B]ankers enabled Greece and others to borrow beyond their means, in deals that were perfectly legal. Few rules govern how nations can borrow […] money […]. The market for sovereign debt – the Wall Street term for loans to governments – is as unfettered as it is vast” (Story, Thomas, and Schwartz, 2010, p. 1). At the national level, some even argue that the over-budget 2004 Athens Olympics also played a part in increasing Greece’s deficit and causing the crisis. Because Greek expenditures on the Olympics were very small in relation to its deficit, the Games are seen mostly as a metaphor for what has gone wrong economically in Greece (BBC News, 2010f; The Economic Times, 2010a).

Based on these difficulties, Greece was not prepared to weather the 2008 global financial crisis. The steady loss of wage and price competitiveness in 2009 began to erode economic growth (The Economist, 2009). The crisis exacerbated two existing problems in Greece: out-of-control government borrowing and long-term economic weakness (Grant, 2009). “Weak growth and high unemployment spell particular trouble for states that already have high levels of public debt. That explains why Greece was first to lose the confidence of the markets: with a public-debt-to-GDP ratio of 115% and a budget deficit of 13.6% in 2009, it was the eurozone’s outlier state” (The Economist, 2010g, p. 1). In addition, the Greek government revised its 2009 economic statistics indicating that its budget deficit would in fact be 12.7 percent of GDP, not
the 3.7 percent the previous government had forecast, leading the European Commission to see “renewed problems in the Greek fiscal statistics” (European Commission, 2010b, p. 3). When Greek loans finally were called in, it was revealed that the Greek government owed the world around 300 billion euros (BBC News, 2010m). The obvious inability to repay these loans, and what a eurozone state default would mean for the European Union as a whole, raised the question of whether or not to bailout Greece.

Greece and the European Union had several options to choose from in deciding how to best handle the economic crisis. These options included Greece defaulting on its loans or leaving the eurozone, which would allow it to devalue its currency and regain competitiveness. Greece defaulting, however, seemed out of the question for all involved. As Verney (2009, p. 5) states:

[W]hile South European difficulties in the midst of the crisis raised expectations in some quarters that “the Greeks would smash the crockery and march out of the eurozone” […], our examination of the South European cases shows such an assessment to be wildly unrealistic. It ignores the immense significance which eurozone entry played in South European politics as a major national goal and achievement. Particularly in Old Southern Europe, meeting the Maastricht criteria was seen as proving that the Southern poor relations could match their northern partners and attain a place at the centre of the European integration process. Eurozone withdrawal, negating their national success stories, would entail a major loss of national status with serious negative consequences, not only in the practical realities of day-to-day EU politics, but also at the symbolic level of national identity.

The European Union saw neither default nor exit from the eurozone as politically or economically viable for the eurozone and the Union as a whole, not to mention the fact that currency devaluation is strictly prohibited within the eurozone. Greece’s inability to devalue its currency because of its membership in the euro area left it even more economically vulnerable.

A Greek default ultimately would have huge consequences for the Greek government, Greek citizens, and the big EU economies (The Economist, 2010e). German and French financial institutions held up to 70% of Greek debt and would have been severely hit (BBC News, 2010). Exit from the currency area was just as dangerous. As Plummer (2010, Scenario 3: Greece Abandons the euro) states, “[i]t would arguably be in the Central Bank’s interest to lend Greece the money it needs to meet its obligations, rather than risking the damage to the currency that would be inflicted by a Greek exit.” Further damage to the currency could be seen in how the
Greek crisis already was spreading to other vulnerable southern European states (European Commission, 2010a; Evans-Pritchard, 2010).

Two other eurozone states of particular concern when Greece’s economic future began to grow uncertain were Spain and Portugal. “Shares in Spain and Portugal, seen as the next two targets [at the time] for investors testing the European Union's will and ability to defend weak euro zone economies, […] were falling during this period” (Maltezou and Graham, 2010, Battered Banks). Although the treaty governing the EU includes a “no-bail-out” clause, the best option for both Greece and European Union as a whole seemed to be to bailout Greece, a significant act in protecting the stability of the eurozone and European Union (The Economist, 2010a). As the European Commission (2010a, p. 1) stated,

A joint EC/IMF/ECB mission visited Athens from 21 April to 3 May 2010 following a request for international financial assistance from Greece. On 2 May the mission concluded a staff level agreement for a joint euro area / IMF financing package of EUR 110 billion and supporting economic policies [to be active from May 2010 to June 2013]. On the same day the Eurogroup agreed to activate stability support to Greece via bilateral loans centrally pooled by the European Commission. On 9 May the IMF executive board approved a Stand-By Arrangement.

Finally, on May 10, 2010, at 2 a.m. after eleven hours of debate, the European Union announced the European Stabilisation Mechanism (ESM) worth 750 billion euros (The Economist, 2010d). Of that money, 80 billion euros were provided to Greece with 30 billion in additional aid from the International Monetary Fund. The Union “[…] also agreed to tighten EU budget rules, put in place more effective sanctions for breaking debt guidelines, and monitor debts and competitiveness” (BBC News, 2010b; BBC News, 2010c, “Serious situation”). One of the most significant steps the bailout took to ensure liquidity and prevent the crisis from spreading to other eurozone states was the European Central Bank’s new plan to start buying up bonds and government debt, something the ECB said it would never do (BBC News, 2010a; BBC News, 2010k). “On 18 May 2010, the euro area Member States disbursed their first installment [sic] of EUR 14.5 bn of a pooled loan to Greece, following a disbursement of EUR 5.5 bn from the IMF” (European Commission, 2010a, p. 1).

The 110 billion euros provided by the ESM are planned to be disbursed over a set time frame (2010 to 2013), with this time period divided into 13 different loans, or “tranches.” The
Eurogroup and the IMF board would only disburse the tranches after their approval of a review required before each tranche can be distributed. This review is meant to gauge the overall outlook of the Greek economy and the progress the economy is making using the tranche funds already received (European Commission, 2010a).

Some question why the Union took so long in bailing out Greece when it was obvious that the situation was deteriorating several months before an agreement on the bailout was reached. In fact, some argue that had the European Union acted sooner, the cost of the bailout could have been considerably less (BBC News, 2010e). Politics certainly played a large role in deciding whether or not to bailout Greece. The Germans were especially concerned with paying for the result of some economically “profligate” states (BBC News, 2010e; The Economist, 2010d). To the dismay of many Germans as citizens of the largest economy within the eurozone, Germany held much of the responsibility for funding the European Stablisation Mechanism. The German contribution added up to around 22 billions euros (BBC News, 2010e). Some even contend that Germany should have taken charge of its own banking system before and during the crisis. This may have allowed for a less contentious, and therefore earlier, bailout agreement (Fidler, 2010). This highlights the financial trouble that even the largest European economies were facing during the crisis.

Austerity and National Political Change

In return for the bailout, the European Union and the International Monetary Fund expected the Greek government to take on severe austerity measures to do its part in bringing down its deficit and avoid bankruptcy. “The austerity plan aims to achieve fresh budget cuts of 30 bn euros over three years – with the goal of cutting Greece’s pubic deficit to less than 3% of GDP by 2014” (BBC News, 2010b, “Evident” anger). The Economic Adjustment Programme for Greece (2010a) drawn up by the European Commission explicitly states that economic adjustment in Greece relies primarily on expenditure cuts. In order to be eligible to receive the bailout funds, the Greek government must put in place a fiscal program centered on bringing back credibility to the Greek economy.

The consolidation, or bringing together economic requirements for Greece’s recovery, began early in the process. As the Adjustment Programme states (European Commission, 2010a, p. 15), “consolidation is strongly frontloaded[….and] difficult measures [are] legislated and
implemented upfront. This applies to nominal wages and pensions cuts and to the increase in VAT and excises taxes.” Other measures included scrapping bonus payments for public sector workers; capping annual holiday bonuses, and ending them for higher earners; banning increases in public sector salaries and pensions for at least three years; increasing VAT from 21% to 23%; raising taxes on fuel, alcohol and tobacco by 10%; taxing illegal construction; and creating a more efficient and equitable tax system with an eye towards stronger enforcement of tax evasion (BBC News, 2010b; European Commission, 2010a). Table 2.1 outlines the measures year by year, beginning in 2010, and ending in 2013 (as projected by the European Stability Mechanism).

Table 2.1: Consolidation measures in the authorities’ programme

<table>
<thead>
<tr>
<th>Revenue measures</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in VAT rates</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Increase in excise tax on fuel</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Increase in excise tax on cigarettes</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Increase in excise tax on alcohol</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Carry-over from previous year</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Excise non-alcoholic beverages</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Gaming licenses</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Gaming royalties</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>VAT - broadening base</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Presumptive taxation</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Increase of legal values of real estate</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Book specification of income</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Gaming royalties</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Green tax</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Presumptive taxation</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Increase of legal values of real estate</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Taxation of wage in kind (cars)</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure measures</th>
<th>1.9%</th>
<th>1.2%</th>
<th>1.7%</th>
<th>2.3%</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage bill cut (13th 14th wage, allowances)</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Intermediate consumption</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Pension cuts (highest pensions)</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Elimination of solidarity allowance</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Pensions cut (13th 14th monthly payment)</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Carry-over from last year</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Public investment reduction</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Public investment reduction</td>
<td>0.2%</td>
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<td>0.2%</td>
<td>0.2%</td>
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</tr>
<tr>
<td>Public investment reduction</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Pension cuts (highest pensions)</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Public investment reduction</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>TOTAL ANNUAL IMPACT</td>
<td>2.9%</td>
<td>4.1%</td>
<td>2.4%</td>
<td>2.0%</td>
<td></td>
</tr>
</tbody>
</table>


As Table 2.1 illustrates, 2010 and 2011 are the most difficult austerity years for Greece under the current bailout program as it struggles to rebuild its economy. 3.4% revenue-to-GDP, or the percentage of tax receipts divided by gross domestic product, is expected in these two

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7 The European Commission indicates that reproduction of this source is authorized provided the source is acknowledged.
years, while only 0.4% revenue-to-GDP is expected in the final two years. These proportions indicate not only the unsustainable nature of the Greek economy before the bailout, but also how difficult it will be for Greek citizens to come to terms with such drastic measures to save their economy, and idea explored later in this chapter.

One common tactic seen through the duration of the Adjustment Programme involves the cutting or freezing of pensions. The Greek pension system itself was on the brink of insolvency before the EU’s implementation of the Adjustment Programme. As the Programme states, “Under unchanged policies, Greece has a sustainability gap of 14.1% of GDP, compared to an EU average of 6.5% of GDP[…]. Pension expenditure as a share of GDP is projected to increase (under unchanged policies and in a partial equilibrium projection) by 12.5 percentage points by 2060 relative to 2010, well above the EU average of 2.4 points of GDP” (European Commission, 2010a, p. 18). Since this first analysis of the unsustainable nature of the old pension system, a set of reforms has been outlined and supported through a draft bill by the Greek Cabinet. Reforms include strengthening the link between contributions and benefits, setting the normal retirement age to 65, and removing the incentives for retirement before the statutory age. “In particular, pension benefits will be reduced by 6 percent per year for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years” (European Commission, 2010a, p. 18).

It is important to keep in mind that these economic benchmarks are set forth as stipulations for receiving bailout funds and that the draft bill set out by the Greek Cabinet is subject to change by European authorities if they see these stipulations are not being met. Greece decided to remain in the eurozone and take assistance from other EU states and the IMF. The connection between remaining a member of the eurozone and as a consequence having other states make explicit decisions about national economic conditions is crucial.

Had Greece not been a member of the eurozone originally, the option of currency devaluation for the ailing economy would still be on the table. However, because devaluation within the euro is prohibited, Germany, France, the Netherlands, Spain, and the other EU members involved in creating the guidelines set these measures for the maintenance of the Greek economy. Supranational decision-making on national issues and the already poor state of the Greek economy before the crisis influenced the reactions of Greek citizens to the proposed austerity measures. Some of the most riveting news images from this time come from Greek
protests as a result of the austerity measures, which were extremely unpopular with the average Greek citizen because of the perception that ordinary citizens were being punished for the economic irresponsibility of others (Brabrant, 2010; BBC News, 2010g; Forbes, 2010).8

One year after the EU and the IMF agreed on a plan to bail out Greece, and three years after the beginning of the Greek recession, the economic climate in Greece and among its citizens deteriorated. Consequently, public patience with deep austerity in Greece has only declined. According to The Economist (2011a, p. 1),

[t]he need to come up with a new plan for Greece is mounting. On May 20th, 2011 Fitch, a ratings agency, cut the country’s debt rating by another three notches. Yields on Greek ten-year bonds […] reached 16.8%, more than twice what they were a year ago. With the markets shying away, the country will not be able to borrow afresh next year, as had originally been hoped when the country was first bailed out in May 2010. The IMF’s latest review is due out in June; it is likely to praise Greece for its progress so far but also to fret about how next year’s numbers add up.

Although the Greek state and its citizens have sacrificed much to fall in line with the EU/IMF bailout requirements, it seems that Greece may be even closer to default than before the intervention of the European Central Bank and the IMF.

This situation outlines an issue of great concern for Greek citizens. Although it increasingly seemed to be the case that the adjustment program originally outlined to bring Greece out of crisis may have to be revised given the worsening economic conditions, support from Greek citizens watching their pensions diminish and their benefits disappear was wearing thin (The Economist, 2011b). There may no longer be support for this process. This is important because an original stipulation of the EU and the IMF for Greek aid was that Greece maintain consensus among its elected officials and parties that the state would do whatever economically possible to meet the bailout requirements. The tension has grown between further austerity measures, which would ensure further support from the EU and the IMF, and the peoples’ extreme dislike of these cuts given three years of recession and no clear light at the end of the tunnel.

8 Although outside the scope of this research, this issue also fits into the field of study dedicated to capitalism and the privatization of state assets. Further research could be done on how Greece may be a case of this phenomenon because it is currently in the process of selling off public assets to raise funds to meet EU and IMF benchmarks for further aid.
Although extremism has always been a part of the protests against austerity and indeed an inherent element of protest across Europe, instances of radical behavior in public demonstrations have recently risen. Faiola (2011, first section) is worth quoting at length:

Already struggling to avoid a debt default that could seal Greece’s fate as a financial pariah, [Greece] is also scrambling to contain another threat — a breakdown in the rule of law. Thousands have joined an “I Won’t Pay” movement, refusing to cover highway tolls, bus fares, even fees at public hospitals. To block a landfill project, an entire town south of Athens has risen up against the government, burning earth-moving equipment and destroying part of a main access road. The protests are an emblem of social discontent spreading across Europe in response to a new age of austerity. […]Countries such as Greece are coping with a fallout that has extended well beyond ordinary civil disobedience. Perhaps most alarming, analysts here say, has been the resurgence of an anarchist movement, one with a long history in Europe. While militants have been disrupting life in Greece for years, authorities say that anger against the government has now given rise to dozens of new “amateur anarchist” groups, whose tactics include planting of gas canisters in mailboxes and destroying bank ATMs.

This radical expression of discontent extends beyond the streets according to a recent study by Public Issue in Greece.9 Greek citizens, while publically expressing their anger with austerity, also began to shift their political support.

The current prime minister of Greece, George A. Papandreou, was sworn into office on October 6, 2009, which marked the one-year anniversary of the global economic crisis and the Greek recession. Papandreou is the president of the center-left Pan-Hellenic Socialist Movement (PASOK), one of two major political parties in Greece, and “[…] wooed voters by promising to “revolutionise” cultural and political life – and offering the possibility that Greece's near bankrupt economy could be ‘fixed’ without further austerity” (Hellenic Republic, 2011, George A. Papandreou; Smith, 2009, p. 1). Of course, it was after Papandreou’s election that Greece applied for a bailout from the European Union and the International Monetary Fund, a measure that required further austerity measures as outlined by the benchmarks of the bailout deal. The

9 “Founded in 2001 by Yiannis Mavris, Public Issue is today one of the leading opinion polling companies in Greece. Public Issue became widely known when it established the use of telephone polling in Greece to estimate voting intentions, but also to make accurate forecasts, in parliamentary elections in 2004 and 2007. The company has an advanced data collection system – the Public Issue Contact Center – with 44 workstations. It is a member of the World Association for Public Opinion Research (WAPOR), the European Society for Opinion & Marketing Research (ESOMAR) and the Association of Greek Market & Opinion Research Companies (SEDEA)” (Public Issue, 2011a, The Company).
growing tension between the need for further austerity and the declining public support of these measures caused a shift in support of PASOK to the second major party in Greece, the center-right New Democracy Party. As Yiannis Mavris (2011a, p. 1) notes in a June 2011 analysis,

The sharp decline in the ruling party’s electoral support and the prime minister’s standing are causing a rapid transformation of the political scene. For yet another month, PASOK’s electoral support continued its free fall. In just 30 days, the ruling socialists sustained losses of -5% and the party’s vote estimate is now estimated at only 27%, while its actual social support is lower than 15% of the total electorate. […] It should also be noted that the decline in the party’s electoral support has been continuous for nine months, accelerating in the last four months (since March) with average monthly losses of 2.75%. […] The complete erosion of the party’s support within society is now visible. The collapse of the ruling party’s social and electoral support for the first time has given the main opposition, conservative New Democracy party a clear lead of around 4%.

As Papandreou pushed for more austerity, including budget cuts and state asset sales to private organizations in an attempt to receive further monetary support from the EU and the IMF, New Democracy pushed back, an effort that may explain its increasing public support in the polls in the summer of 2011 (Petrakis and Weeks, 2011; Granitsas, 2011). Figure 2.2 demonstrates how New Democracy has begun to overtake PASOK in Greek public opinion.¹⁰

**Figure 2.2 PASOK and New Democracy Vote Estimate¹¹**

From: Public Issue (2011a, vote estimate)

¹⁰ More recent statistics on the vote estimate in Greece indicated that New Democracy continued to gain ground. As of July 11, 2011, support for New Democracy grew from 31% to 32.5% while support for PASOK declined from 27% to 26.5% (Public Issue, 2011a, vote estimate).

¹¹ As shown in this figure, the original statistics from Public Issue (2011a) do not report data for August 2010 or November 2010.
Given the economic climate in Greece, does this survey information provided by Public Issue support the argument that the Greeks are becoming more skeptical of the benefits of the single currency? The first factor that must be examined is the current shift Greek citizens are making in their support from PASOK to New Democracy. Is it possible that PASOK may historically be more supportive of the idea of European integration and participation in the eurozone, while New Democracy has been more hesitant? This may help explain the shift in public opinion during this time in Greek history.

The Presidential Parliamentary Republic of Greece, as outlined by the 1975 Constitution, applied for EC membership immediately after its establishment as a new republic. From 1975 to Greek accession in 1981, the two main political parties, PASOK and New Democracy, had divergent opinions on Greece’s potential membership in the European Community. In fact, New Democracy (ND) supported Greek membership in the European Community from the beginning. “In a declaration issued on the occasion of [a past] Euroelection it is argued that the ND party, which brought Greece to the United Europe, strongly [supported] the deepening of European integration and the enlargement of the European Union” (Moschonas, 1995, p. 7). The center-left PASOK, however, originally took a critical position on the idea of Greece participation in the European integration process (Moschonas, 1995). As Moschonas (1995, p. 10) states, PASOK was formed in 1974 and began its operation as a movement characterized by socialist and nationalist overtones, thereby reinforcing in the Greek political scene a left-wing nationalism. On the Greek accession to the EC this left-wing nationalism found its theoretical rationalization in the context of the then popular dependency theory. Thus PASOK took the position that “the peripheral and externally controlled character” of the Greek economy required a “correctly planned national investment effort”, a precondition undermined by the accession to the EC. […] In opposition [sic] to the accession supported by the ND party, […] PASOK proposed “a policy of multi-dimensional and equal cooperation with all the European countries, not only with the countries of the EEC, as well as with the developing countries.”

Given the poor economic condition of many states around the world in the early 1980’s, however, PASOK soon shifted its position to pro-integration in light of the economic support that the Community could provide to Greece (Moschonas, 1995).

Both main parties now support Greece’s participation in the European Union. Evidence from Public Issue indicates this in its May 2011 survey, Memorandum and Debt: One year
Figure 2.3 shows whether the voters for the individual Greek parties during the 2009 election had a positive or a negative opinion of the European Union. According to the data, 75% of ND supporters in 2009 held a positive view of the EU, while a close 66% of PASOK supporters also held a positive view of the EU. Given the shared support for the EU, what might explain the shift in voter support from PASOK to ND?

Figure 2.3 What is your opinion of the European Union? (by vote percentage in 2009 parliamentary elections)

From: Public Issue (2011b, Part Four)

As mentioned previously, one of the stipulations the EU and the IMF set for Greece to receive bailout money is that the political process be streamlined and consensus strong within Greece on meeting the bailout’s economic demands. Strong consensus among both Greece’s political parties can help to ensure the effectiveness of the political, and therefore economic

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12 The Memorandum of Understanding was written in early May 2010 and focused on specific economic policy conditionality in Greece in light of the current economic crisis. It ultimately represents the official Greek understanding and acceptance of the economic Adjustment Program outlined for Greece by the European Commission and the IMF. In its introduction, it states, “The quarterly disbursements of bilateral financial assistance from euro area Member States will be subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria, and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum, which specifies the detailed criteria that will be assessed for the successive reviews, up to the end of 2011. The detailed criteria for the years 2012 and 2013 will be specified at the occasion of the spring 2011 review. The authorities commit to consult with the European Commission, the ECB and the IMF on adoption of policies that are not consistent with this memorandum. They will also provide them with all requested information for monitoring progress during program implementation and the economic and financial situation […] Prior to the release of the installments, the authorities shall provide a compliance report on the fulfillment of the conditionality” (Memorandum of Understanding, 2010, p. 1).

13 As Figure 2.3 shows, the third, fourth, and fifth major parties in Greece after PASOK and ND are the Communist Party of Greece (KKE), the Coalition of the Radical Left (SYRIZA), and the Popular Orthodox Rally (LAOS).
process. It seemed, however, that New Democracy had enough in light of the worsening economic situation in Greece and the subsequent proposal for a new bailout package to see Greece through 2012. As Petrakis and Weeks (2011, first section) state, “European Union officials have called for consensus on the package, which includes an additional 6 billion euros ($8.6 billion) of budget cuts and a plan to speed 50 billion euros of state-asset sales, before approving more aid that Greece needs to avoid default.”

While Papandreou continues to try to hold his party together and negotiate a further aid package with the EU and the IMF that could total as much as 60 to 65 billion euros, Antonis Samaras, leader of ND, rejects this course of action (Lygeros, 2011; Granitsas, 2011). As opposed to continuing along the path set by the original Memorandum of Understanding, Samaras is anti-memorandum, seeking a renegotiation of the original terms (Granitsas, 2011; Konstandaras, 2011; Kathimerini, 2011). “Samaras wants Greece’s memorandum to include certain tax reductions instead of the foreseen tax hikes and is proposing a renegotiation along the lines of deals reached by Portugal and Ireland with their international creditors” (Kathimerini, 2011, p. 1). This, he believes, shows support for the social and local economic hardships that many Greeks are now experiencing and puts EU/IMF demands second. Granitsas (2011, p. 1) quotes Samaras, “[w]e will not pre-sign a policy that flattens the economy and destroys society’.”

Figure 2.4 shows the breakdown in the percentages of Greek citizens who were for or against the Memorandum of Understanding based on the Public Issue survey of May 2011. It is clear that at 62%, the majority of respondents either agreed with Samaras that the terms of the original Memorandum should be renegotiated on more fair terms or believed that Greece should ignore the guidelines set out in the Memorandum altogether. Only 15% responded that they supported the Memorandum. Such low support for the Memorandum among the Greek public may be an explanation for the recent increase in ND’s poll numbers.

14 After Greece and Ireland, and as of the writing of this study, Portugal is the most recent state to apply for a bailout by the EU and the IMF in May 2011. With financial assistance to Portugal, the crisis seems to be moving dangerously closer to Spain, which could seriously threaten the entire eurozone. This, however, is outside the scope of this research.
At first glance, the most recent data on whether or not respondents are for the Memorandum support the argument that Greece is growing skeptical of the benefits of eurozone membership. After all, the Memorandum outlines how Greece, as a member of the single currency required to operate under the euro’s monetary structure, will follow bailout guidelines set by the EU and the IMF. However, the situation is not quite so clear-cut. Figure 2.3 hints at something interesting happening within Greece during this crisis. Based on the Public Issue (2011b) survey data, it is clear that many Greeks still support the grand idea of a European identity as a member of the European Union and the single currency.

As the two main political parties in Greece, PASOK and New Democracy, currently hold 252 seats of the 300 seat Greek Parliament, with 77.4% of the national vote as of the 2009 general election (Keith, 2009). Of that national 77.4%, and as demonstrated by Figure 2.3, 75% of those who voted for New Democracy and 66% of those who voted for PASOK hold a positive opinion of the European Union. Based on these statistics, it is clear that a majority of Greeks supported the EU a year after the global economic crisis of 2008.\textsuperscript{15} Figure 2.5 is even more telling.

\textsuperscript{15}Voting is compulsory in Greece; although not strictly enforced, turnout is usually relatively high. In the 2009 general election, about 70% of the 9.9 million registered Greek voters cast ballots. This percentage was down from around 74% in the previous parliamentary election (European Election Database, 2009).
From November 2010 (six months after the original bailout) to May 2011, Greek opinion on the European Union had not necessarily begun to weaken. Instead, Figure 2.5 shows that Greek opinion on the EU has improved since the bailout conditions were outlined, and negative sentiment towards the EU has declined.

More importantly, support for the single currency also seems to be increasing. Support for the euro in Greece has undulated from high to low support since its adoption by the Greeks. Figure 2.6 demonstrates that while it was very popular just before and during the adoption period, the decade after its adoption and the time period leading up to the global economic crisis saw much lower public support (Mavris, 2011b). “The gradual erosion of ‘philo-European’ sentiment in Greece eventually translated into a negative stance toward the euro on the part of the majority of citizens” (Mavris, 2011b, p. 1).
Figure 2.6 What is your opinion about the euro? 2010-2011

![Graph showing public opinion about the euro from 2010 to 2011. The graph indicates a clear change in public opinion in the mid-2000s, with support for the euro growing and continuing to grow, though at a slower rate, during the current crisis.](image)

From: Public Issue (2011b, Part Four)

Figure 2.6 also shows a clear change in public opinion in the mid-2000s. Mavris (2011b, p. 1) continues, “[a] watershed in the process of the turnaround of (also Greek) public opinion was the French referendum of 29 May, 2005 on the European Constitution.” After that time, support for the euro grew and continued to grow, though at a slower rate, during the current crisis. “[…A]cceptance of the euro now approaches 58%, has remained fairly stabilized in the past six months, and is significantly higher among the most vulnerable and badly affected groups of the population (e.g. pensioners, housewives). At the same time, 2 in 3 respondents (66%) reject the possibility of abandoning the euro and reverting to the drachma believing that such a development would exacerbate the situation” (Mavris, 2011b, p. 1). As shown in the Figure 2.6, 58% of respondents currently have a positive opinion of the euro, 40% of respondents have a negative opinion of the euro, and 2% did not express an opinion. Figure 2.7 also shows the overall popularity of the euro along party lines. Again, between the two main political parties, most respondents hold a positive opinion of the euro.
One of the options for addressing the poor state of the economy has been for Greece to exit the eurozone and bring back its original national currency, the drachma. This option originally was unpopular not only with the members of the eurozone and the EU who wanted to demonstrate the dedication behind their strong Union, but also among the Greeks who hold much pride in their participation in the eurozone and their European identity. Reverting back to the drachma would certainly have its benefits and major risks. As discussed, among the benefits is the opportunity to devalue the drachma, and therefore increase competitiveness in the Greek economy. “An exit from the euro zone could help the economy in the long term; Greece would be able to cut interest rates and having its own, weak currency would boost exports and tourism” (Sinner and Kyriakidou, 2011, euro fall). Figure 2.8 shows Greek public opinion on reverting back to the drachma, and it is clear that most Greek citizens (66%) are concerned about the risks of such a change.

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16 The original survey data appear to miscalculate the respondent percentage under the SYRIZA category. Due to what appears to be an issue related to the original rounding of individual statistics by Public Issue, the SYRIZA category adds to 101%. For this research, I report the statistics as Public Issue has published them.
Only 16% of respondents report that things for Greece would be somewhat better if Greece left the eurozone and reverted to the drachma. Some of the fear may stem from the fact that this is uncharted territory; no state has ever left the eurozone. “[…]here is no legal procedure for leaving the zone,” and the risks and immediate costs for Greece include runs on Greek banks, which would ultimately damage banks around the entire region (Sinner and Kyriakidou, 2011, euro fall). These data demonstrate that, Greece does not seem to be growing skeptical of the idea of its membership in the eurozone, or even expressing discontent with membership in the European Union. In fact, the data indicate that if anything, this crisis has strengthened public opinion of Greeks membership in the eurozone and the EU as a whole. This being said, could the shift in party support from PASOK to New Democracy indicate a dislocation of a different kind?

Public Issue (2011b) provides additional useful information on Greek opinion of the European Central Bank and the International Monetary Fund. Figure 2.9 shows Greek public opinion of the European Central Bank in May 2011, and Figure 2.10 shows the change in public opinion of the IMF from February 2010 to May 2011.
Figures 2.9 and 2.10 show that both the European Central Bank and the IMF are unpopular institutions among the Greek respondents. According to these data, 52% of respondents hold a negative opinion of the ECB. Meanwhile, although 20% of respondents held a positive opinion of the IMF in May 2011, this number has decreased in the last year. The most striking statistic is that 75% of respondents held a negative opinion of the IMF in May 2011, a percentage that rose quite dramatically compared to the previous year. Additionally, Figure 2.11 shows that 69% of respondents in May 2011 thought that the IMF should probably leave Greece. In just six months’
time, the percentage of respondents who thought that the IMF should probably remain in Greece dropped from 28% to 23%.

Figure 2.11 Do you believe that the International Monetary Fund should probably remain in Greece or probably leave Greece?\(^{17}\)

![Bar chart showing percentage of respondents for each option, with May 2011 data being higher than November 2010 data.]

**From: Public Issue (2011b, Part Three)**

These data on the negative opinion of the ECB and the IMF are not surprising. Austerity measures pursued by the government are, of course, attempts to comply with bailout guidelines set by these institutions. The data on public opinion of the IMF are extremely important. After all, the European Union is dependent on splitting with the IMF not only the costs of the financial mechanisms established to support ailing eurozone economies in the future but also the costs of bailing out both Greece and Ireland. Much of the political support garnered in the big EU economies, like Germany, for supporting ailing eurozone economies has come with the assurance to their citizens that not all of the cost of supporting “profligate” or endangered economies would rest on their shoulders. The IMF ultimately made the commitment to provide one-third of any European Union bailouts (*The Economist*, 2011c).\(^{18}\)

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\(^{17}\) The original survey statistics appear to miscalculate the respondent percentage for May 2011. Due to what appears to be an issue related to the original rounding of individual statistics by Public Issue, the May 2011 category adds to 101%. For this research, I maintain the statistics as Public Issue has published them.

\(^{18}\) “[…] the IMF made an unprecedented commitment to preserving the very existence of the eurozone. Whereas traditionally it supported countries facing a balance of payments crisis, the IMF has now extended loans to countries with a reserve currency, the euro, in order to prevent that monetary union from breaking up. Nearly two thirds of the IMF’s outstanding loans are tied up in European nations, a profound change from its recent history as a lender to poorer countries” (*The Economist*, 2011c, p. 1).
In short, while Papandreou is fighting vigorously for the approval of the next tranche of bailout funds and a second full bailout from the ECB and the IMF, Greek citizens are in protest against these institutions and the austerity measures they inspire. Although only a small majority of respondents hold a negative opinion of the ECB (Figure 2.9), a much larger majority rejects the idea of further IMF involvement in their state (Figure 2.10). These data are important to consider given that without the support of the IMF, it may not have been politically possible for the European Union to bring together an aid package for Greece when its crisis deepened in April and May 2011.

Based on this polling information, what seems to be suffering during this crisis is not the connection the Greeks feel with the eurozone or the EU as a whole, but rather their support for particular institutions like the European Central Bank and IMF. So, while this does demonstrate a particular element of dislocation in terms of how Greek citizens view outside institutions that are now dictating Greek economic policy, it certainly does not support the original argument that the political shifts within Greece demonstrate a growing skepticism with the benefits of euro membership as a result of the degradation of the economic relationship between Greece and the eurozone. On the contrary, although currently rejecting these institutions, the Greek public still appears to support the grand idea of a European identity as a member of the European Union and most importantly, the eurozone.

Indeed, based on additional data provided by Public Issue (2011b) in Figure 2.12, it seems that Greeks place more blame for their economic situation on their own state organizations and banks than on the euro and the state’s accession to the Economic and Monetary Union.
Figure 2.12 How much responsibility do the following bear for Greece’s debt?

From: Public Issue (2011b, Part Five)

As Figure 2.12 shows, among the options provided to respondents, the euro and the country’s accession to the EMU were viewed as the least responsible for Greece’s debt. The Greeks place much of the responsibility for their debts on their own government (98%) and banking system (70%) in addition to several outside influences like credit speculators (89%) who had a hand in affecting global confidence in Greek markets and foreign banks like Goldman Sachs, which helped Greece conceal its debt long before the crisis (60%).

As Greece currently stands, New Democracy looks poised to capture control of the government by general or early election. If the party gains control of parliament, it will find itself in a precarious situation. It will have been swept in to office on the platform that the IMF will no longer dictate austerity policy in Greece and that ordinary Greek citizens have suffered enough from the economic malpractice of previous political and economic actors. This implies a rejection of the language of the original and any subsequent Adjustment Programmes established by the ECB and the IMF.

As of early summer 2011, it was widely thought that Greece would default on its loans (Gongloff, 2011; Norris, 2011; Kirchfeld and Logutenkova, 2011). “Sooner or later there will be a Greek default, even if it is officially described as a “voluntary restructuring” approved by most bondholders. Europe wants to delay that at least until 2013, when new rules are supposed to kick in that would let official creditors — such as Europe’s bailout fund — do better in a deal than
private creditors. But it seems less and less likely that the inevitable can be delayed that long” (Norris, 2011, p. 1). Economic experts in the EU and around the world also widely accept that this situation puts other EU and eurozone states at dangerous risk of default given their interconnection with Greece’s financial system. Gongloff (2011, p. 1) states, “Lena Komileva, head of G10 strategy at Brown Brothers Harriman, has a note out [...] titled “The Day After Greece Defaults.” In it, she warns of the knock-on effects of a messy Greek default.” He continues, quoting Komileva,

> Recent market action suggests that investors have largely prepared for the eventual certainty of a Greek credit event, but the markets remain vulnerable to a broader contagion from a euro zone government default across sovereigns, financial sector and risk assets. The real economic cost...is not so much the direct cost of Greek default but the uncertainty surrounding broader financial stability the day after Greece defaults. The immediate risk is [sic] that a Greek credit event could compromise stabilization processes elsewhere (in Gongloff, 2011, p. 1).

After a year of compliance with the ECB and the IMF, bailouts, and austerity, it seems Greece is back where it started. The economic situation has only worsened, and national political change is on the horizon. Greece’s history with the single currency has come to a tumultuous and disheartening chapter: a situation outlined by the necessity to tax the Greeks more on withering pension plans, disappearing benefits, and goods and services in order to help insure its survival and perhaps outline the possible fate of the entire eurozone. Though the Greeks still support the euro, their economic situation is worsening and continuing to strain a single currency that was not prepared for a crisis of this magnitude.

The next chapter will move to a discussion of Ireland and how it has weathered the financial crisis. Ireland was the second eurozone state to receive a bailout and was perhaps the most surprising recipient given Ireland’s history of perceived economic strength. Chapter 3 seeks to determine if any similarities exist between Greece and Ireland in terms of the three areas of analysis: experience with the bailout, austerity as a result of financial crisis, and national political change. Based on public opinion, are the Irish growing skeptical of the benefits of the euro for Ireland, or is there another element of dislocation occurring as in Greece?
Chapter 3: Ireland

This chapter begins the analysis of Ireland. I start with a discussion of Ireland’s experience with the bailout, then analyze austerity measures and the political change Ireland experienced as a result of the crisis. Unlike in Greece, Irish voters have already expressed their political opinions at the time of this writing. The 2011 Ireland general election could serve as a warning to Greek political officials and other governments in the eurozone that are managing the debt crisis, as it appears that widespread electorate anger and discontent with the party that negotiated the original Irish bailout led to that party’s removal from government. Curiously like Greece, this anger and discontent with the economic situation does not seem to cross Ireland’s own borders in terms of the positive image of the eurozone and the European Union still held by many Irish citizens at the time of this writing.

The Crisis and Ireland

Before 2008, Ireland was long ranked as one of the top economies in Europe. It moved from being one of the poorest members in 1973 to one of the richest member states by 2006 (Rees, Quinn, and Connaughton, 2009). In fact, Ireland had living standards above the euro-area average since 1997 (Buti, Deroose, Gaspar, and Martins, 2010). The Irish economic phenomenon was known as the Celtic Tiger, and performed strongly as a member of the eurozone until the 2008 crisis.

When Ireland first became a member of the European Union, its establishment as an international competitor was perhaps, like for Greece, only possible with EU finance. Because both Greece and Ireland were weaker economies upon their entrance, EU financial support was necessary to help soften the economic impact of the shift to a much larger market with different economic expectations. EU financial assistance provided a springboard for impressive economic development. As Laffan (2003, p. 251) states,

[...] From 1992 onwards, Ireland consistently out-performed its EU partners in terms of economic growth, employment creation and the growth of exports. As a result, per capita incomes in Ireland converged rapidly with the Union. EU finance was critical in helping Ireland create the human and physical infrastructure which fuelled economic growth and recovery. This meant that at the end of the 1990s, Ireland had to re-position itself, as it was no longer the poor peripheral state that joined in 1973. It [was] now a successful competitor for
growth and employment creation.

Ireland clearly made the most of the EU financial support, and “[…] by the mid-1990s [had] one of the fastest [sic] growing economies in Europe, outperforming its European neighbors, with Irish per capita GDP having grown from 66 per cent of the EC average in 1972 to 115 per cent by 2000. […] Employment also grew by 45 per cent between 1993 and 2001” (Rees, 2009, p. 95).

From its accession to the EU, the Irish government supported Ireland’s further European integration through Economic and Monetary Union. The Irish government’s original goal in joining the euro was to open up the market to international business in order to greatly diversify the economic and social sector. “[…] Ireland's policy always aimed at being eligible to participate in EMU from the outset. A statement issued by the Taoiseach, Mr Bertie Ahern TD, on 6 May 1998 reiterated the Government's commitment to continuing stability achieved through economic and budgetary policies to ensure tight expenditure and low inflation which will help secure the medium-term sustainability of Ireland's economic growth” (McCreevy, 1999, Ireland’s Policy on EMU). Thus, economic and monetary union was immediately beneficial for the Irish economy.

Ireland joined the euro at a time when its economy was performing well, which was a particular point of confidence for the EU has a whole in the stability of the Irish economy. Although becoming a member of the eurozone required the state to relinquish control of many characteristics of its economy to the European Union, the benefits far outweighed the risks (Rees, Quinn, and Connaughton, 2009). Between 1999 and 2004, “[…] and in terms of the average major macroeconomic indicators, Ireland’s experience in EMU [had] been an unalloyed success: real GNP growth [had] averaged 5.7 per cent per annum, average unemployment was 4.4 per cent, [and] the […] account balance of payments deficit […] averaged less than 1 per cent of GDP per annum […]” (Honohan and Leddin, 2006, p. 266).

Ireland consistently performed well as a member of the single currency; in fact, “[…] the state [had] been complimented by the Commission for its comprehensive and coherent national strategy” in areas of economic policy, such as employment and competitiveness (Rees, 2009, p. 99). Ireland had a head start on most members of the euro club. As Alderman (2010, p. 1) states,

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19 In the Irish parliamentary system, the Taoiseach is the head of government, or prime minister.
“[its] labor market is one of Europe’s most open and dynamic. After its last major recession in the 1980s, it lured knowledge based multinationals like Intel and Microsoft – and […] Facebook and Linked-In – with a 12.5 percent tax rate, giving Ireland one of the most export-dependent economies in the world.”

The core of the financial crisis in Ireland was the unsustainable and eventually catastrophic growth of the construction industry. While the Greek state lived vastly beyond its revenue, the Irish banks pumped vast amounts of money into a property bubble that simply burst. “Ireland is unusual because its entire economy after 2000 came to be driven by a property bubble” (Kelly, 2009, p. 2). Ireland experienced the crisis much like the United States. Articles in The Economist and The Irish Times argued years ago that a property bubble existed in the global market, highlighting that in Ireland participation in the single currency’s low interest rates may have justified some of the higher home prices, which posed risk to the Irish banks that lent the money (The Economist, 2005; Taylor, 2003). Morgan Kelly (2009, p. 3) describes the foundations of the crisis,

During the 1990s Ireland experienced the Celtic Tiger: rapid employment growth driven by competitive labour costs. As employment and income rose, house prices were driven up. Construction rose and this increased employment, leading to further construction […]. As property prices rose, value of collateral increased and perceived risk of property lending fell […]. [In terms of the effect of bank lending exacerbated by narrowness of Irish market: by increasing lending by 20% a handful of banks could drive up property prices by 20% […]. [The market came to be driven by expectations of capital gains […].

Higher prices coupled with increases in speculative ventures and the low cost of borrowing fueled not only the bubble, but also the level of indebted homeowners in Ireland (Figure 3.1).
High growth “[…] fed into an over-extension of credit[… and] overly buoyant consumer expenditures. In this context, low real interest rates and easy access to credit contributed to inflating private sector balance sheets […] and property prices. Both household and non-financial corporate indebtedness rose sharply prior to the crisis to levels that were among the highest in the EU27” (European Commission, 2011a, p. 6). As Figure 3.1 demonstrates, when debt levels skyrocketed and credit growth dramatically declined, the market came to a screeching halt. When the bubble burst, precipitating the 2008 financial crisis, Irish banks finally were held accountable for their lending spree.

In a move that distinguished it from the Greek government and the other PIGS of the eurozone, however, the Irish government acted swiftly in 2008 when it became clear that the current path was unsustainable. “It was the first country in Europe to hack away at spending to wrestle a raging budget deficit under control, winning praise as a trailblazer whose decisive austerity program showed the way for the rest of the continent” (Chu, 2010). Underhill (2010, p. 1) states decisively, “The difference [was] that Ireland [could] offer honesty and the gritty resolve of its coalition government. There's no Greek-style fudging or finger-pointing at the demons of Anglo-Saxon capitalism. Instead, the Irish […] launched an austerity program of startling severity, raising personal taxes and cutting spending.”

Figure 3.1 Private Sector Credit Growth (y-o-y %) and Household Debt (% of GDP)


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20 The European Commission indicates that reproduction of this source is authorized provided the source is acknowledged.
During this initial phase of austerity in Ireland, Irish citizens did not seem particularly upset at the government’s strong-minded steps to bring the financial situation under control, at least not enough to bring their protest *en masse* to the streets like protestors in Greece (Broad, 2010, Calm on the streets; McDonald, 2010). The cuts were not minimal, however. Totaling 5.5% of GDP in 2008 and 2.4% of GDP in 2010, they included slashing public sector workers’ pay by 18%, welfare payments by 4%, and 5bn euros from the total budget, which could potentially eliminate over 17,000 public sector jobs (Broad, 2010, Austerity Ireland).

In addition to the austerity measures set in place when the economic situation in Ireland began to look dangerous, the Irish government established the National Asset Management Agency (NAMA) in December 2009. In its establishment of NAMA, the Irish government sought to “[...] deal with the riskiest loan portfolios on the balance sheets of Irish banks” (NAMA, 2010, p. 2). The Brief Guide to NAMA (NAMA, 2010, p. 2) continues,

> Following an examination of the options available, it was decided that an asset management agency approach was the best means of ensuring the stability of the financial system and the protection of depositors and of ensuring that banks were able to lend to the real economy. NAMA is an asset management company that will acquire good and bad loans from participating institutions. It will manage these assets [...] with the aim of achieving the best possible return for the taxpayer on the acquired loans and on any underlying assets over a 7-10 year timeframe.

The six hard-hit financial institutions in Ireland that transferred assets to NAMA included “[...] Allied Irish Banks PLC, Bank of Ireland PLC, Irish Life & Permanent PLC, Irish Nationwide Building Society, EBS Building Society and the [...] Anglo Irish Bank Corp” (Fottrell, 2009, Government Interest). The establishment of NAMA is perhaps the best example of the Irish government’s attempt to demonstrate its resolve to protect its economy and maintain its reputation as the Celtic Tiger.

Ireland was expected to pull through given its quick and unequivocal reaction and fairly stellar (albeit recent) economic track record. The government also acted immediately to inject liquidity into its banks so they could resume close to normal functioning outside of the construction industry. 21 The three worst financial offenders that received money from the Irish

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21 “Liquidity is generally defined as the ability of a financial firm to meet its debt obligations without incurring unacceptably large losses” (FRBSF, 2008, Definition). “The lack of cash flow is especially characteristic of a
government were the Anglo-Irish Bank, Allied Irish Bank, and The Bank of Ireland, the Anglo-Irish Bank being the worst hit lender. However, it became obvious after the Greek bailout and during the summer of 2010 that Ireland was far from in the clear.

Aside from the costs to bailout its banks, Ireland also lost the confidence of investors. “Investors […] attached] much higher risk to holding Irish debt, for which spreads over bunds […] increased to 150 basis points. This largely reflect[ed] concerns about the Irish government’s exposure to the liabilities of the state’s crisis-hit banks” (Tilford, 2009, p. 5). Sadly for Ireland, it became more and more evident in fall 2010 that investor confidence was shrinking and Irish banks were becoming more like bottomless pits. The European Commission (2011a, p. 5) expressed the situation,

By the autumn of 2010 the loss of investor confidence in Ireland triggered a vicious cycle. Deposit outflows from the banking sector accelerated and the cost of government borrowing reached unsustainable highs. As financing costs increased and renewed banking losses were revealed, investors were increasingly concerned about the capacity of the government to deal with the dual challenge of a large fiscal deficit and the state's commitment to finance the growing cost of supporting a severely damaged banking sector. The credibility and thus the effectiveness of the government guarantees in the banking sector faded. More outflows and increasing borrowing costs further damaged confidence.

All told in 2010, the cost to bailout Ireland’s banks rose to 45bn euros, sending the projections on Irish deficit to 32% of GDP [that] year, an astronomical figure (BBC News, 2010i). In November 2010, “[t]he deficit [was] set to hit 11.9 per cent of gross domestic product, the highest in the European Union” (Brown and Oakley, 2010, p. 1). The cost of bailing out the Irish banks “[…] left the state with a level of household debt almost unmatched in Europe” (Underhill, 2010). The Irish government soon realized that it could no longer fund its banking sector on its own and the European Central Bank would need to step in and help fund the Irish banks’ enormous losses.

Ireland’s economic reputation in the eurozone seemed to change completely within a relatively short amount of time. William Underhill (2010, p. 1) put it best,

liquidity crisis, thus disabling a banking institution from carrying out everyday functions (e.g. repaying its loans)” (Taylor, Zimmerman, and Lizza, 2010, p. 2).
Not so long ago [Ireland] was Europe’s economic pacesetter, held up as an example of how a small, open, export driven economy with a flexible labor force could compete in the world market. But the praise was premature. A wild lending-and-spending binge ended with a burst housing bubble and the near collapse of its banks. By last year, Ireland, the one time Celtic Tiger, was being lumped in with the Southern European nations of Portugal, Italy, and Greece as one of the ‘PIIGS’ […].

As the economic situation in Ireland grew worse, it became clear to the European Union that the Irish economy was not simply going to be an Irish or a eurozone problem, but a European Union problem as well. With the nationalization of its biggest banks, it was now the Irish state not the Irish banks that was in debt. Irish government debt ratings began to be downgraded or given negative prospects by the top three ratings agencies, S&P, Moody’s, and Fitch during the late summer and early fall of 2010 (BBC News, 2010h; Telegraph, 2010). In addition, sovereign-bond spreads (the extra interest compared with bonds issued by Germany, the safest credit) drifted back up in early September 2010, and unemployment began to grow dangerously high due to the collapse in the construction industry (The Economist, 2010g).

The Irish financial situation is curious. Because of the European Union Rules on State Aid, the European Commission has the final say on what ultimately happens to Ireland’s worst hit financial institution, Anglo Irish Bank. If Anglo Irish Bank stayed in business, it could cost the Irish people around 35bn euros. “But allow an uncontrolled Lehman-like collapse and bond holders in Anglo (and other Irish banks for that matter) will lose their shirts, abandon Ireland as an investment destination and precipitate a Greek-style spike in the cost of borrowing for the Dublin government” (Europa, 2010; Lynam, 2010, Irish dilemma). As Lynam (2010, Irish dilemma) continues, “The problem for the Republic [was] that (unlike Greece […] in] December [2009]) it [was] already taking very punishing measures to correct its finances and would not be able to stomach much else.”

While some argue that Ireland should be held up as an example of a trailblazer in tackling its deteriorating economic situation early, others suggest that in Ireland’s attempt to preempt an economic disaster, the original austerity measures established by the Irish state merely seemed to cripple the chance for growth down the road (Alderman, 2010, p. 1; Elliot, 2010b). The underlying consequence represented in this argument is that had Ireland not taken such drastic austerity measures early on, it may not have required an 85-bn euro aid package from the ECB
and IMF. The economy would have come into the bailout agreement in a stronger position, and therefore not have required as much aid. Elliot (2010, p. 1) explains,

The government in Dublin announced not one but three slash-and-burn budgets that took the axe to the public sector and welfare entitlements. Unemployment has tripled; emigration of talent has resumed. But it was deemed to be a price worth paying. [...] One measure of market confidence is the difference, or spread, between the yield on Irish government bonds and German bunds. [...] In September 2010, that widened to a record level. The reason for this is simple: the budget cuts have impaired the economy's ability to grow. The Irish government wants to slash the country's budget deficit from 12% to less than 3% by 2014, which would be eye-wateringly tough even if the economy were growing robustly. But when the economy is shrinking, it means the government is in effect running to stand still, hence the calls for even greater austerity to mollify the markets.

Weakening economic growth and decreasing market confidence in the stability of the Irish state eventually proved too much, and on November 21, 2010, the Irish government officially requested assistance from the ECB and the IMF. “The programme provides for up to €50bn in fiscal needs and up to €35bn in banking support measures between 2011 and the end of 2013” (European Commission, 2011a, p. 5). The European Commission’s Economic Adjustment Programme for Ireland (2011a, p. 39) continues,

The programme will be financed through contributions from the EU (€45 bn), the IMF (€22.5 bn) and the use of Irish financial buffers (€17.5 bn). An important contribution (€17½ billion) to the financing of the programme will come from Irish sources, notably through the Treasury cash buffer and investments of the National Pensions Reserve Fund. In addition, the programme will be financed through contributions from the IMF (€22.5 bn) on the basis of an Extended Fund Facility (EFF) and contributions from Ireland's European partners (€45 bn). The EU financing comes from the EFSM (€22.5 bn), together with €22.5 bn from the EFSF and bilateral loans from the UK, Sweden and Denmark (together €4.8 bn, EFSF €17.7 bn).

The purpose of the bailout is two-fold according to the former Taoiseach, Brian Cowen, as quoted by McGee and Beesley (2010), “[t]he first […] is a deep restructuring of the Irish banks. ‘Irish banks will become significantly smaller than they were in the past,’ […] [...][T]he second part of the ‘strong policy programme’ […] include] increased taxes and reduced spending in order
to reduce Government borrowing by €15 billion over the next four years.” Like Greece, Ireland drew up a Memorandum of Understanding (IMF, 2010) in light of the bailout agreement set by the EU and the IMF.

The Memorandum’s guidelines, which are based on quarterly installments of monetary support from the ECB and IMF, are very similar to the guidelines established for the disbursement of the loan tranches in Greece. The ECB and the IMF have planned twelve total reviews of the Irish economy by the end of 2013. Like Greece, the ECB and the IMF must recognize the accomplishment of specific economic goals before each review is approved and the next installment of the bailout money released to the Irish government. Three major economic issues will be reviewed in Ireland over the duration of the Economic Adjustment Programme. The first is fiscal consolidation, in terms of the reconciliation of revenue measures and the reduction of pre-bailout levels of expenditure. The second is structural reforms, in terms of adjustments in the labor market and reducing the risk of long-term unemployment. The third and perhaps most important for Ireland is financial sector reforms, including recapitalization measures for Irish banks, and reorganizing the banking sector with the goal of downsizing the sector to better fit the size of the real Irish economy (IMF, 2010).

Austerity and National Political Change

Of course, the implementation of the reforms set out by the Economic Adjustment Programme for Ireland (European Commission, 2011a) required that Ireland take additional austerity measures in its goal to comply with EU/IMF guidelines and receive further aid. “Ireland's minimum wage [was] cut 13 per cent and all Irish households face[d] a new £257 property tax from 2012. Welfare payments, including jobseekers allowance and child benefit, will be cut five per cent or £2.5 billion. […] Additionally[,] the public sector payroll will be cut by £847 million with 27,000 civil service jobs lost” (Waterfield, 2010, p. 1). In an attempt to keep
the Irish economy competitive among other eurozone members and help facilitate economic growth, however, part of the EU/IMF bailout agreement includes the ability for Ireland to maintain its competitive corporate tax rate at 12.5% (Department of Finance, 2010, p. 90).

Not unexpectedly, Irish citizens began pushing back against the government’s new austerity measures (Burns, 2010; McDonald and Clark, 2010). Protesters railed against the measures set out by the Brian Cowen government and the international financial institutions they saw as having damaging policies on their national economic situation (Burns, 2010). An Irish protester remarked in McDonald and Clark (2010), "I have lived through three recessions and I think this could be the worst one yet," [...]. "I'm here because I'm angry that the EU are telling us to cut euros off the minimum wage and boss Irish workers around while the people that caused this crisis get off scot-free," a remarkably similar sentiment expressed by many of the protestors in Greece. More worrisome still for the Irish public, the interest rate of some of the EU/IMF loans may actually be higher than the rate attached to the Greek bailout loans (McDonald and Clark, 2010).

Irish citizens appear to have been angry with their government from the very beginning of the crisis in 2008. Fianna Fail, led by Taoiseach Brian Cowen, was in power before and during the bailout negotiation. As one of two major parties in Ireland, “[i]t pragmatically adopted centrist, pro-business policies in the mid-1990s, [… and] has been in power for 53 years of its 84-year existence” (Crowley, 2010, Fianna Fail). Fianna Fail supported European integration when the European Union was in its early stages, and it was under Fianna Fail that Ireland joined the European Economic Community (Fianna Fail, 2011, History of Fianna Fail). Unfortunately for the party, it was also under Fianna Fail that the Celtic Tiger fizzled. In an attempt to salvage the economy when the recession began, “Fianna Fail […] pushed through four austerity budgets in just over two years, and spearheaded a bank rescue that saw the state guarantee all its banks, recapitalize them and introduce a ‘bad bank’ [(NAMA)] plan to clean up their balance sheets” (Reuters, 2011, Fianna Fail).

The voters’ opinion of the government has very obviously declined since the beginning of the crisis. Figure 3.2 shows the trends in satisfaction with the Fianna Fail government: between when it appeared that there might be trouble in the construction industry (May 2007) and just after the construction bubble burst (February 2009).
Figure 3.2 demonstrates that voters sought to remove the party, and how dissatisfaction with Fianna Fail remained high until the 2011 general election. When the National Opinion Poll (Millward Brown Lansdowne, 2011b) was conducted in January 2011 just before the general election, it was clear that the Irish public desired a new government with different economic strategies, with 95% of respondents indicating that they were dissatisfied with the Fianna Fail government.

Among the two major political parties in Ireland, Fianna Fail and Fine Gael, and the major third party, Labour, voters made it clear in the January 2011 National Opinion Poll (Millward Brown Lansdowne is the largest research company in Ireland (Millward Brown Lansdowne, 2011a, History). The National Opinion Poll was conducted for the Sunday Independent newspaper in January 2011. “The poll was conducted among a sample of 1,022 adults representative of the approximate 3.35 million adults aged 18 and over -interviewed on a face-to-face basis in the home at 93 sampling points throughout all constituencies in the Republic of Ireland. Millward Brown Lansdowne carried out the interviewing on Wednesday 26th and Thursday 27th January 2011” (Millward Brown Lansdowne, 2011a, p. 2).

The original survey statistics appear to miscalculate the respondent percentage for April 2007. Due to what appears to be an issue related to the original rounding of individual statistics, the April 2007 category adds to 101%. For this research, I maintain the statistics as Millward Brown Lansdowne has published them.

In the run-up to the February 2011 general election, support for Fianna Fail and for Brian Cowen as Taoiseach was extremely low as shown in Figure 3.2. Given that the party recognized its shaky support among Irish voters, the party fractured; and in January 2011 the Dáil, or the lower house of the Irish parliament, held a vote of confidence on the government. Though the Cowen government narrowly survived the confidence vote, there still existed overall disapproval of policy and a fear that Fianna Fail would make an abysmal showing in the general election. This in mind, Brian Cowen stepped down as the party leader shortly after the confidence vote, and was replaced by his former foreign minister, Micheal Martin. Micheal Martin, then, was the face of Fianna Fail going in to the 2011 general election (BBC News, 2011a).
Brown Lansdowne, 2011) how they were leaning in the lead up to the general election. Figure 3.3 shows that the dynamic among Ireland’s political parties shifted during the economic crisis.

**Figure 3.3 Trends in party support (by party)**

From: Millward Brown Lansdowne (2011, p. 6)

From the time of the 2007 general election, Fianna Fail dropped from 41.6% to just 16% in January 2011. The second major party, Fine Gael gained from 27.3% to 34%. Yet perhaps the most striking is that party support did not necessarily shift from Fianna Fail to Fine Gael, but to the third major party in Ireland, Labour, which rose from 10.1% in 2007 to 24% in January 2011.

In terms of specific issues related to reducing Ireland’s budget deficit, Irish citizens were fairly even in their opinion of what the incoming Government should concentrate on in the General Election 2011 Exit Poll as shown in Figure 3.4 (Millward Brown Lansdowne and RTE, 2011).
41% of respondents indicated that the incoming government should concentrate on increasing taxes and maintaining spending on health and social services while 43% of respondents indicated that the incoming government should concentrate on reducing spending on health and social services not increasing taxes. Breaking public opinion down to this level, the opinion on whether or not to increase taxes or reduce spending to tackle the budget deficit does not appear to shed light on why Fine Gael and Labour particularly gained so many votes in the general election.

Recognizing the importance of the economic issue in this recent election, how did the party platforms among Fianna Fail, Fine Gael, and Labour differ?

As mentioned previously, Fianna Fail came into the 2011 general election from a historically strong position. The party had held power in Dublin, Ireland’s capital, for 13 ½ years (Reuters, 2011, Fianna Fail). As the party in power at the beginning of the 2008 recession and the party responsible for the bailout negotiations, Fianna Fail had to be dedicated to the agreement established with the EU/IMF to rescue the Irish banks. According to Reuters (2011, Fianna Fail) in terms of the recent economic crisis, “[t]he party’s two biggest failings in government have been the mismanagement of a property-induced economic boom followed by an underestimate of the scale of the bust and the losses incurred by Ireland’s banks, which had their liabilities guaranteed by the government” (The Economist, 2011d). In light of the budget
deficit and the austerity measures caused by such mismanagement, “[v]oters [were…] keen to punish the party […]”

Fine Gael was led by Enda Kenny, the longest serving MP in Ireland’s lower house at the time, and does not necessarily represent Fianna Fail’s opposite in terms of the direction of the Irish economic policy (Reuters, 2011). Although where Fianna Fail seemed to negotiate the majority of the terms of the Irish bailout on EU/IMF terms, Fine Gael rallied against this approach, arguing during the election for a renegotiation of “ […] parts of the IMF/EU deal, principally the rate of interest and the stance on forcing losses on bondholders” (Reuters, 2011, Fine Gael). As Reuters (2011, Fine Gael) continues, “[Fine Gael] […] signed up to the targets agreed in the deal, but will seek to change some of the policies earmarked to reach the goals. It […] also signed up to the EU-agreed target of reducing the budget deficit to 3 percent of GDP by 2014, or 2015 at the latest, favoring spending cuts over taxation. [Additionally, Fine Gael…] promised to keep corporation tax at its low 12.5 percent level” (Reuters, 2011, Fine Gael). Moreover, as will be discussed below, Fine Gael did not totally reject some of Fianna Fail’s policy on austerity measures taken to address the banking crisis.

Regardless of the current push to renegotiate the terms of the EU/IMF bailout agreement, Fine Gael made no secret of its overall support for the European Union in the past. In fact, though the Lisbon Treaty was originally rejected by referendum in Ireland and later passed in 2009, Fine Gael always supported a yes-vote and continued to support the Treaty after Ireland’s economic collapse in 2008 (Fine Gael, 2009). As Fine Gael’s European Election Manifesto (Fine Gael, 2009, p. 5) states, “The Irish economy has been devastated by the economic collapse and by the chaos in the national finances. […] Now, more than ever, Ireland needs the European Union.”

On the political spectrum, the Labour party is certainly to the left of Fianna Fail and Fine Gael. Labour’s leader Eamon Gilmore has long been a popular politician in Ireland, though the

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25 “The Treaty of Lisbon amends the current EU and EC treaties, without replacing them. It provides the Union with the legal framework and tools necessary to meet future challenges and to respond to citizens’ demands” (Europa, 2011b, The Treaty at a Glance). Ireland’s rejection and later approval of the Lisbon Treaty are based primarily on the issues of national sovereignty and the declining state of the economy between the two referenda. “Irish opinion is thought to have swung behind the “Yes” vote […] because of the severity of the economic downturn, as well as the legal “guarantees” on Irish sovereignty that the EU pledged after the first referendum. The legally binding “guarantees” state that Lisbon will not affect key areas of Irish sovereignty, such as taxation, military neutrality and family matters such as abortion - significant issues in […] the 2007 campaign in Ireland” (BBC News, 2009, EU hails “victory”).
party typically received minimal support among Irish voters (*Reuters*, 2011, Labour). Despite clear support for the EU, Labour seems to approach EU supranational governance and aid from a cautious, national perspective. As Labour’s Manifesto (2001, p. 15) states,

As a result of the mismanagement of the economy by Fianna Fail, Ireland is dependent on the IMF/EU loan facility to fund the fiscal deficit. Labour has consistently supported the objective of restoring fiscal stability, in line with our obligations as a member of the Eurozone, and as a necessary requirement for economic stability and long-run growth. Labour does not accept, however, that the fiscal strategy devised by the discredited Fianna Fail government and included in the EU/IMF deal provides a basis for economic recovery or for maximizing long-term growth.

Although Fine Gael may question the economic feasibility of the current aid package for Ireland, it is no surprise that the Labour Party seems to question as well its fairness to Irish citizens (Labour, 2011, p. 15). “[…], Labor also wants to renegotiate the IMF/EU bailout package and […] said that it would like to see Ireland given longer than the current period of around seven years to repay the emergency loans. […] It favors a more even split between tax rises and spending cuts and would aim for 7 billion euros of budgetary savings over the next three years, rather than the 9 billion agreed under the aid package” (*Reuters*, 2011, Labour).

Eamon Gilmore very clearly situated his party’s position before the 2011 election saying, “[…] the decision by Fianna Fail and the Green Party to nationalise bank debt was an act of "robbery"” (*BBC News*, 2011a, ‘Magic’).

In summary, both opposition parties in Ireland support the further influence of the European Union in Ireland and membership in the eurozone. The sentiment among Irish citizens towards the EU and the eurozone seems to be mixed however. When participants were asked in the Standard Eurobarometer 74 (Eurobarometer 74, 2011, p. 36) whether or not Ireland has benefited or not from being a member of the European Union, their responses were eight percentage points lower than when the same question was asked in Eurobarometer 73 in spring 2010.26 This response is curious given that Ireland was soon to benefit from an aid package at the

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26 The fieldwork for the Standard Eurobarometer 74 was conducted in November 2010, the same month that Ireland officially applied for aid from the EU and the IMF. Therefore, it is important to note the importance in the relationship between the types of questions asked about the opinion of Irish citizens and the circumstances of the time. Also of importance in terms of the date of the fieldwork is the relationship in Eurobarometer 74 between the Greek and Irish public opinion statistics. The Greek statistics in Eurobarometer 74, the most recent Standard
time of the survey. Of course, given the austerity measures that came with such aid, it is no stretch to imagine that Irish citizens were asking, to whose benefit? Most importantly, when asked what was one of the most important issues facing their country, “[… eurozone] Member States [were] slightly more likely to be worried about […] the state of public finances than non-euro zone countries (23% versus 17% […])” (Eurobarometer 74, 2011, p. 23), perhaps implying that residents of non-eurozone member states may feel more confident about the state of their own national economies.

Trust in the EU also declined five points in Ireland since spring 2010 (Eurobarometer 74, 2011, p. 44). In addition, “[r]espondents in Ireland, Greece and Portugal are the most pessimistic about the economic outlook for their country and for the EU. Ireland is also the country where economic forecasts for both the national and European economies have deteriorated the most (-39 points for the national index compared with six months earlier, and -19 for the EU) […]” (Eurobarometer 74, 2011, p. 18).

However, the data are not all negative. When Irish participants were asked whether or not they supported economic and monetary union and the euro, 80% indicated that they still support the idea of EMU and the single currency (Eurobarometer 74, 2011, p. 60). What is important in these data is that while 80% indicate they support the idea of economic and monetary union and the euro, this does not speak to how Irish citizens believe the economic and monetary union is currently functioning for Ireland. An interesting question in Eurobarometer 74 gets to this point. When the entire EU was asked which aspects should be emphasized by the European institutions in the coming years to strengthen the European Union in the future, it is no surprise that a plurality (37%) chose economic and monetary union in a time of economic crisis (Eurobarometer 74, 2011, p. 64). The telling figure out of Ireland is that support for making economic and monetary union the most important aspect to focus on in the coming years rose 13 points since spring 2010, reflecting the banking crisis as it developed in summer 2010 (Eurobarometer 74, 2011, p. 65). Surprisingly, despite these concerns, a large percentage of respondents in Ireland still held a positive image of the European Union (48%) in line with the front running political parties at the time.

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Eurobarometer, appear to contradict the data presented in Chapter 2. However, it is important to keep in mind the discrepancy in the survey dates. While Public Issue (2011) provided the most recent opinion data in Greece in summer 2011, the most recent available opinion data in Ireland come from Eurobarometer 74’s November 2010 fieldwork. The 2011 Irish general election data does very little in capturing Irish public opinion on more international topics like the eurozone and the EU.
More specifically in terms of the issues laid out in the 2011 general election and as shown in Figure 3.5 among those who support Fine Gael, a majority of respondents (51%) are in favor of the incoming government reducing spending in Ireland to reduce the budget deficit. Among those who support Labour, only 39% of respondents favored the incoming government reducing spending, with a plurality of respondents indicating that increasing taxes would be the most important tactic to concentrate on.

**Figure 3.5 In order to reduce the budget deficit, do you think the incoming government should concentrate on…? (by party)**

![Bar chart showing the percentages of respondents for different parties.](image)

From: Millward Brown Lansdowne and RTE (2011, p. 42)

The surprising finding in Figure 3.5 is the similarity between the Fianna Fail respondents and the Labour respondents. Both seem to back increasing taxes and reducing spending to about the same degree. This being the case, it is curious that as shown in Figure 3.6, which details the factors behind the voting behavior of Irish citizens, a plurality of respondents (41%) indicated that choosing between the policies as set out by the parties was most important to them in making up their mind how to vote in the election, a notable increase in the percentage of respondents who chose the same response in the 2007 poll (Millward Brown Lansdowne, 2011, 49). However, as shown in Figure 3.3, Fianna Fail’s support has decreased dramatically and Labour’s support has grown to surprisingly high levels. The pre-general election situation in Ireland closely resembles the political climate in Greece during Summer 2011.
There appeared to be a strong opinion against the ruling party and the terms of the bailout agreement negotiated by the ruling party and for the party that stands on a platform of renegotiation of the original bailout agreement. Figures 3.7 and 3.8 shed more light on the increase in support for both Fine Gael and Labour. Figure 3.7 shows that a vast majority of the respondents (82%) in the National Opinion Poll (Millward Brown Lansdowne, 2011b, p. 27) indicated that they believe the next government should attempt to renegotiate the terms of the EU/IMF bail-out, a position both opposition parties stand firmly on in their reelection manifestos. However, the question seems to be in whether or not respondents believe this can actually be accomplished.
Figure 3.7 Should the next Government attempt or not to re-negotiate the terms of the IMF/EU bail-out?

From: Millard Brown Lansdowne (2011b, p. 27)

Figure 3.8 If the next Government were to try and re-negotiate the terms of the IMF/EU bail-out, how likely or not do you think they would be to succeed?

From: Millward Brown Lansdowne (2011b, p. 27)

As in Greece, the renegotiation of the original bailout agreement seems to be an important issue for citizens who believe they are supporting the full weight of a crisis not totally of their doing. Figure 3.8 shows the results when participants were asked how likely or not they
thought the government would be to succeed if it was to try to renegotiate the terms of the IMF/EU bailout. Although 82% of respondents thought the incoming government should attempt to renegotiate (Figure 3.7), only 36% of respondents collectively thought the government would be quite likely or very likely successful in its call for renegotiation. A majority (52%) thought a successful attempt to renegotiate was either quite unlikely or very unlikely.

When all votes were counted after the February 25, 2011 general election, Fine Gael totaled 36.1% of the vote, Labour totaled 19.4% of the vote, and Fianna Fail totaled 17.4% of the vote (RTE News, 2011, %1st Preference Vote). Enda Kenny of Fine Gael assumed the position of Taoiseach. Not surprisingly, when asked about the one issue or problem that most influenced the decision as to how Irish citizens voted, 49% of respondents indicated that the economic issue most influenced their decision, and a remarkably large 36% of respondents indicated that the problem that most influenced their decision was that they felt angry or let down by the government, indicating the high level of emotion voters attached to their vote this time around (Millward Brown Lansdowne and RTE, 2011, p. 26).

At only 36.1% of the national vote, Fine Gael selected the Labour Party as the government’s coalition partner giving both parties a 30-seat majority in the 166 seat Dáil (Brown, 2011a, p. 1). Notable among the coalition’s goals is the government’s plan to leave the previous government’s deficit reduction plan and resulting austerity measures in place. As Brown (2011b, p. 1) states,

> The coalition […] said it will stick to the previous government’s deficit reduction plans for the next two years and is committed to meeting the European Union target of reducing the budget gap to 3 per cent of gross domestic product by 2015. The austerity programme envisages €6bn ($8.3bn) of cuts and tax increases in 2011, as announced in […] the December 2010] budget, and a further correction of €3bn in 2012. However, the coalition agreement said ministers would then review the need for further adjustment in light of economic developments.

In light of the outcome of the recent election in Ireland, how do the results reflect or not if Ireland is growing more skeptical of the benefits of eurozone membership? As discussed briefly throughout the chapter, Ireland and Greece as smaller and weaker economies in the EU share several features. Chief among the similarities are the bailout packages. What seemed to differentiate the two states in the summer of 2011 is public sentiment. Greek citizens had not yet
had the opportunity to reflect their current views politically, and therefore, some of the largest news-getting events in 2011 surrounded the protests in the Greek streets. The Irish already had the opportunity to reflect their opinions politically in the 2011 general election and must get on with the newly elected government, which includes surviving the austerity measures that the new government made clear would stay in place.

What is perhaps the most disheartening for the Irish citizens, however, are the exit poll data represented in Figure 3.8. The Irish people are angry, and this anger fueled political change in 2011. The participants in the exit poll (Millward Brown Lansdowne and RTE, 2011) largely supported a renegotiation of the bailout agreement and voted into office officials from two parties that share that goal. It is no surprise that Irish citizens see in the renegotiation of the bailout agreement an opportunity to lessen the burden on the everyday Irish taxpayer; yet the participants indicated in Figure 3.8 that this would likely never happen.

Although survey data indicate that Ireland may not be unequivocally moving away from the idea of the euro, there is certainly an element of dislocation as demonstrated by the desire among Irish citizens to renegotiate the terms of the EU/IMF on more citizen-friendly terms. Additionally, the Eurobarometer 74 (Eurobarometer 74, 2011) data show growing pessimism among the Irish about the benefits of EU membership. However, opinions of economic and monetary union are quite positive. Yet what can explain the sentiment that a renegotiation of the bailout agreement likely cannot be accomplished? It may be that the Irish people have come to terms with the brutal reality of deficit reduction as outlined by the EU and the IMF, or perhaps this perceived lack of efficacy is the beginning of a movement in Ireland that the current form of economic and monetary union is no longer working for Ireland, and therefore, indicating a growing skepticism of eurozone membership in Ireland.
Chapter 4: Conclusion – Fraying at the Edges?

In conclusion, what is happening in these two states, and what does this say about the integrity of the single currency? Are Greece and Ireland fraying the edges of the eurozone? Is the political and public opinion data in this research a sign of the degradation of eurozone economic relationships? There is certainly an element of dislocation occurring in both Greece and Ireland during the current economic crisis as demonstrated by the rejection of the original language of the EU/IMF bailout agreements in both states. However, neither state seems to be growing skeptical of the idea of the euro and its benefits. Additionally, the phenomenon is occurring differently in each state, likely because of how each is experiencing the crisis.

The Greeks hold much pride in including themselves among the European Union, yet the Greek economy has always been in question as part of the eurozone. Economic indicators were manipulated in order to meet the criteria required for Greece to become a member of the eurozone. Once in the eurozone, bad economic practice by Greek governments (and other institutions outside Greece) mixed with low euro interest rates helped to fan the flames of economic collapse. “The truth is that the global financial crisis did not begin in the eurozone, but on Wall Street. However, international crises are much like earthquakes in that the greatest damage does not necessarily occur near the epicenter, but in areas with the most vulnerable structures. The eurozone proved to be the weak link as the common currency, instead of acting like a shock absorber, acted like an amplifier, magnifying to an extreme degree the imbalances between the German ‘core’ and the Mediterranean ‘periphery’” (Papaconstantinou, 2011, p. 1). Consequently, to the dismay of the big European Union economies, the Greek economic crisis quickly became a EU problem with the revelation that banks across the eurozone were going to suffer major shock waves from the losses on Greek loans, not to mention the potential damage to the eurozone itself.

This contagion effect marked the beginning of the 2010 European sovereign debt crisis in Greece and ultimately of the negotiations to bailout Greece. So far, given the nature of the Greek economy, the European aid that has been poured into the economy by the European Central Bank and the International Monetary Fund can be compared to water flowing into a bucket full of holes. As of summer 2011, it appears that the original bailout of May 2010 will not be enough to hold Greece through 2012 and a second bailout package is being negotiated. Yet, a second bailout of the Greek economy may still not solve the problem. It is getting more difficult for the
Greek government to come to an agreement on what gets cut when the time comes for Greece to comply with ECB/IMF requirements and receive another tranche of bailout funds.

There is a growing concern among Greek citizens about what they are sacrificing in order to comply with EU/IMF bailout regulations as a member of the eurozone. Greek citizens have split their anger and distrust among several actors and institutions. The popularity of the Greek government had plummeted by summer 2011 given PASOK’s and George A. Papandreou’s efforts to comply with the requirements of the original bailout. Meanwhile, the main opposition party, New Democracy, has seen its poll numbers surge on its leader’s platform that there should be a renegotiation of the original bailout. Although support for the European Central Bank and the IMF is very low among the Greeks, they neither want to revert back to the drachma and leave the eurozone, nor relinquish their position in the European Union. Both are out of the question for many Greeks, for in their opinion reverting to the drachma would worsen the economic situation, and remaining a EU state legitimizes their perceptions of the Greek state as western. Consequently, according to the survey data (Public Issue, 2011b) presented in Chapter 2, a majority of Greeks still hold a positive opinion of both the euro and the EU.

From this analysis, Greek citizens appear to be moving away from particular institutions like the ECB and the IMF. This is perhaps an effect of supranational decision-making bodies having a major say in national issues, which are felt locally. Additionally, Greeks are moving away from the political party that helped negotiate the terms of the bailout, which included the seemingly necessary austerity measures. Yet at the same time, it appears that what the Greeks are certainly not moving away from is the grand idea of the European Union and what such an organization can mean for Greece.

It is easy to blame the Greeks for the mismanagement of their own economy, for there are certainly elements that need improvement (like standing by harsher consequences for the many tax evaders and putting an end to corruption in government). In the Public Issue survey (2011b, Part Five) discussed in Chapter 2, even Greek citizens responded that they place more blame on Greeks themselves than they place on the euro and the state’s accession to the EMU. Yet, the fact remains that for whatever reasons, politically motivated or otherwise, the European Union agreed to expand its borders to Greece, and the European Commission and European Central Bank ultimately opened up the eurozone economy to Greece as well.
Whether or not the EU knew about the miscalculation of the Greek economy, Greek economics have always generally been unsteady at best, which creates cause for the reexamination of the placement of at least some responsibility for the crisis. As Papaconstantinou (2011, p. 1) states, “If […] little Greece is capable of causing such contagion throughout Europe, couldn’t the problem lie with Europe’s immune system? In other words, could Greece’s debt crisis be, instead of the cause, the catalyst for revealing a much deeper systemic crisis within the eurozone?” Moreover, how does Ireland fit into this situation given that it is not a poor southern relation to the EU, but one of its past stars? This may support the idea of a much deeper systemic crisis within the eurozone, and therefore shed light on challenges posed to smaller and weaker economies in the eurozone, not just the historically weaker southern states.

While Greece sought to create a bond with other European governments, a large part of Ireland’s push to join the European Union was to unlock itself from the asymmetrical relationship it had developed with the United Kingdom. Although Ireland came into the European Union from a weak economic position, it flourished as a member of the eurozone. The “Celtic Tiger” was a European economic star, a shining example of how to do business. Yet like any engine that burns too hot, the situation quickly deteriorated after the construction industry ran out of steam, an industry that Ireland relied on disproportionately compared to other states. Unfortunately for Ireland’s major banks, massive loans, speculative ventures, and inflated pricing tied in with the construction industry left the banks desperate for recapitalization.

Key to an analysis of the economic crisis in Ireland is that the Irish government acted immediately to cut spending when the crisis began. Fianna Fail, the government in power at the start of the crisis, pushed through several harsh austerity budgets in an effort to reduce Ireland’s growing deficit caused by the attempt to save the banks. Perhaps there was a level of understanding of this approach among Irish citizens, because protests against these original austerity measures were not uncommonly large or angry. The level of emotion among Irish citizens changed, however, once it became clear that the cost to bail out the Irish banks was bankrupting the economy and economic aid would be required from the ECB and the IMF.

Of course, with the monetary support from the ECB and the IMF and the bailout of the Irish banks came even harsher austerity measures. As mentioned in Chapter 3, Ireland was already struggling to survive under preemptive austerity measures and was in no situation (or mood) to handle much more. In fact, austerity so early on may have been part of the cause of
such poor growth in the Irish economy. Regardless, support for Fianna Fail, which plummeted after the start of the crisis, remained pitifully low till the party was removed from power. Ireland requested monetary aid in November 2010, and by February 2011, the Irish people had elected a new coalition government led by Fine Gael (the major party) and Labour (the minor party). As in Greece, the opposition party platforms rested firmly on the position of renegotiating the terms of the Irish bailout because of a growing concern among Irish citizens about what they are sacrificing in order to comply with EU/IMF bailout regulations as a member of the eurozone. An additional finding in Ireland indicates that though renegotiation should be the goal, the attempt probably will not be successful. Moreover, the situation is different in Ireland because Irish citizens have already had the opportunity to express their anger politically.

As Chapter 3 analyzed, the Standard Eurobarometer 74 (Eurobarometer 74, 2011) provides insight on public opinion in Ireland before the 2011 Irish general election. The percentage of respondents in Ireland who thought that Ireland benefitted from being a member of the European Union has dropped since spring 2010. Additionally, Irish citizens have a very negative economic outlook for both their own economy and that of the EU as a whole, indicating the skepticism that is growing about Ireland’s future as a member of the eurozone. The news is not all bad, however. A great majority of respondents also indicate that they still support the idea of EMU and the euro. On top of that, a large percentage of respondents have a positive image of the European Union despite the bailout negotiations that were occurring at the time of the survey (Eurobarometer 74, 2011).

This brings up an interesting point. Irish citizens made it clear in the February 2011 general election that they support a party that will fight for a renegotiation of the bailout agreement. Yet, as shown in Chapter 3, a majority of respondents in a national opinion poll do not think the new government is likely to succeed and negotiate a new bailout agreement. What can explain this perceived disbelief that Irish national economic interests are important within the eurozone as a whole?

This study has pointed out several similarities between Greece and Ireland as two very different states before the crisis. Aside from being the first two eurozone states to receive bailouts, political change in both states surrounds the same issue of bailout agreement renegotiation. Opposition parties in both states have gained ground since the beginning of the crisis. In Greece, though support has shifted to the center-right second major party, New
Democracy, total support for both main parties combined has fallen fairly significantly. This indicates, as shown in Figure 2.2, that some voters may have shifted to more extreme parties. Ireland’s situation is similar. Labour, Ireland’s center-left third party picked up a record number of seats in the 2011 General Election. The second major party in Ireland required support from Labour in order to form an effective coalition government. Some of Ireland’s other opposition parties also picked up seats in the election. Analysis of how extreme parties in Greece and Ireland and other embattled eurozone states are taking opposition to the single currency during the crisis would be informative for future research.

Perhaps the biggest similarity between Greece and Ireland is the most striking based on their traditional differences. While Greece’s small economy has always been in question, the EU put Ireland’s economy on a pedestal as an example of the eurozone benefits a small state can experience. Regardless, the two meet on the point that they are in grave economic trouble. This study shows clearly that the telling divide between eurozone states does not separate the northern “responsible” economies and the southern “spend-thrifts.” After all, Ireland’s economy was uncommonly dependent upon its bloated construction industry, enabled by its loan-happy banks. The divide might then be based on another characteristic. Smaller and weaker economies are those that are suffering in a monetary union meant to, in theory, bolster and mutually support all eurozone economies. Papaconstantinou (2011, p. 1) writes of “[…] the German ‘core’ and the Mediterranean ‘periphery’ and goes on to say, “[…] the shock waves of this relationship have intensified to the point of threatening a rift.” Perhaps the demonstration of the actual divide between the periphery and the core of the eurozone is the biggest connection between the economic crises in Greece and Ireland.

As demonstrated by the public opinion and political data in this study, it does not seem that the Greeks and the Irish are demonstrating a desire to no longer be a part of the eurozone in the political change in both states. However, given the continued deterioration of the Greek economy particularly, and given that other states have already begun to add strain to the eurozone’s economic cohesion, the eurozone may be past the point where national public opinion is of great concern in terms of its survival. Additional fears are still mounting about the future of Italy and Spain, who face deep levels of debt and unemployment, yet differ from Ireland and Greece in how the massive size of their economies could truly do immediate damage to the euro. As mentioned in the Introduction, once one of the structural elements begins to pull from the
whole, it is not long before others follow, and the Greece economy certainly does not appear to be recovering as of summer 2011.

The depth of the crisis reveals that a Greek or Irish default is much more than a Greek or Irish problem. It is clear that the poor and worsening economic conditions of these peripheral states were the catalysts for the crisis. In addition, it certainly does not bode well for the European Central Bank that neither the Greeks nor the Irish are at all enthusiastic (to the point of pushing major political shifts in their states) about the pills they swallowed in the form of bailout agreements. Given the severity of the crisis, however, data on public opinion of the euro in Greece and Ireland, particularly in regard to the disapproval of both the ECB and the IMF, may not be a sign of the degradation of economic relationships in the eurozone, especially considering that citizens of neither state necessarily support leaving or even weakening the eurozone. This research reveals that Greece and Ireland, in the abstract, still support the idea of the euro; however, in practice it is its poor management and supervision by the core eurozone members (and others, like international financial institutions and the IMF) that seems to be the issue. Additionally, it is not likely a growing skepticism with membership in the single currency and resulting political change in Greece and Ireland, but the worsening contagion effect from their severely imbalanced economies that is fraying the edges and degrading the integrity of the eurozone’s specific economic relationships.

What will Europe do? Both Germany and France and other power players within the eurozone have been scrambling since the crisis began to keep the single currency’s peripheral economies from endangering the entire euro project. Aside from the obvious economic trouble, the duration and continual worsening of the crisis speaks ill of the eurozone’s political integrity. Although, the eurozone crisis reveals opportunities to greatly strengthen the financial and political ties of the European Union, the test is if the EU will make the difficult decisions to save and strengthen monetary integration, or accept the dissolution of the eurozone as a potential consequence. Only further research can discover how the EU will help its smaller economies address their euro-challenges as the crisis continues to deepen. For, whether change comes in the form of stronger economic governance, tighter political union, or further economic turmoil for the eurozone, the struggles of Greece and Ireland demonstrate that European monetary union is unsustainable in its current form.
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