How has the EU Debt Crisis caused a divide in the European Union?
Overview

The European Union (EU) debt crisis that begun on the back of the global financial crisis in 2008 has been ongoing. Prior to the crisis, the EU was believed to be the new power that would run the 21st century. The historic creation of the Euro as well as the largest trading bloc in the world covered 500 million citizens, making the EU a formidable economic power (Droziak). However, with the onset of the debt crisis that begun in Greece, the EU is still struggling to contain the debt contagion, with both citizens and politicians alike becoming disillusioned with the union, thus causing a divide between members.

Origins of the Crisis

While the rest of the world was reeling from the effects of the global financial crisis since 2008, the union’s own problems began to unravel at the end of 2009 when Greece, a member of the EU, admitted that it had accumulated debts of up to €300 bn, or 119% of its GDP, which was 59% above the 60% debt limit set by the EU (“Timeline”). Despite its high levels of debt, George Papandreou, leader of the newly elected Socialist party in Greece announces that the county would not default on its debt.

However, at the beginning of 2010, an EU audit revealed that Greece had irregularities in its accounting procedures and had understated its debt levels in previous years in order to join the EU. While the European Central Bank (ECB) dismissed talk about Greece leaving the union, other countries began to have increased concerns about the other heavily indebted countries in the union, them being; Portugal, Ireland, Greece and Spain. These countries soon became known to be the “PIGS” (“Timeline”).

Under pressure from the union and the ECB, Greece initiated austerity measures to limit spending. However, these measures proved unpopular with its citizens, sparking protests and riots. Although the EU and International Monetary Fund (IMF) initially offered a safety net of €22 bn to Greece, deteriorating financial conditions soon forced the two bodies to extend a €110 bn bailout package for Greece (“Timeline”). While the Euro currency continued its decline against the US Dollar, the Irish Republic became financial insolvent and requested a bailout package as well.

Over the course of 2011 and 2012, Portugal receives a bailout while other countries such as Italy and Spain that are deemed as a high risk receive financial aid and packages as
the ECB began buying their government bonds in order to bring down their borrowing costs and prevent their bond yields from spiralling out of control. To date, the financial costs of these bailouts and rescue packages have cost the EU nearly €2 tn (“Europe’s Bailout”). While the bond-buying initiatives and bailouts were aimed at saving and supporting the economies of these financially troubled states, it is worthy to note that a key concern of the union was not to save these economies only but also to prevent the spread of the debt contagion to other European states (Quinn).

**Strained Relationships and Disagreements**

While current measures have prevented any members from having to leave the union, the debt crisis and the measures undertaken to contain it has caused deep divide within the union. Anger has risen towards the indebted countries, other EU members, ECB and the IMF, with each blaming one another for the troubled state of their economies and the union. As a result, relationships between governments and citizens of different countries have been strained.

1) **Divisions at the Inter-Government Level**

European inter-governmental unity began to falter in 2010 when French ex-President Nicolas Sarkozy and German Chancellor Angela Merkel disagreed on how to support Greece. While President Sarkozy wanted a more explicit promise to assist Greece without involving international organisations, such as the IMF, Chancellor Merkel was reluctant to commit to a bailout solution without involving them. As such, the disagreements eventually resulted in a delay of a rescue package to Greece (Erlanger).

Later in 2011, amid fears of a Greek default on its loan obligations, U.S Treasury secretary Timothy Geithner noted that European leaders still displayed indecisiveness on the debate of the overall economic strategy in Europe and urged his counterparts to act quickly before the contagion spread outside of Europe (Forelle).

In another instance of inter-governmental division in the EU, the Eurozone countries failed to raise their target of €200 bn for a special IMF Eurozone bailout fund in December 2011. While a handful of developing countries such as Hungary, Romania and Latvia did not
contribute to the fund due to their poor economic situation, Britain refused to contribute. Despite being a member of the EU, British Prime Minister David Cameron stated that the IMF’s purpose was to “save countries and not currencies (the Euro)”, and thus did not participate in the special Eurozone fund (Pop).

**ii) Divisions at the Citizen/Taxpayer (Ground) Level**

The citizens in indebted countries such as Greece that have received bailouts from the ECB and the IMF are unhappy with the conditions of the loans, believing that the harsh austerity measures impose on their sovereignty, national pride and well-being (Donadio). Due to the austerity measures that are aimed at reducing debt, governments have been forced to cut their spending levels, with the Greek government cutting at least €30 bn from its expenditures in 2010 (Smith). While this has enabled indebted countries to receive aid from the ECB and IMF as part of the loan conditions, it has also led to lower pensions, benefits and higher taxes for its citizens (Smith).

Whilst its intention is to reduce debt, these measures have negative social effects, resulting in lower unemployment levels, income and living standards (Casert). As such, unhappy citizens and labor unions in countries such as Greece, Italy, Spain and Portugal have gathered together and gone on massive strikes to protest against their countries’ fiscal policies, the EU central government and the IMF, believing them to be the cause of their sufferings. This has caused massive disruption in public services such as healthcare and transportation (Casert).

Another point of division in opinion lies in the way Italy’s Silvio Berlusconi and Greece’s Georgios Papandreou, both leaders of their countries, were suddenly replaced by technocrats. Although the two new leaders, Greece’s Lucas Papademos and Italy’s Mario Monti were considered to be the good candidates to tackle the debt crisis due to their expertise in finance, they were appointed in an undemocratic manner, without any elections being held (Donadio).

Meanwhile, citizens in the Germany and France are increasingly unhappy with the use of their taxes to bailout the indebted countries. Main factors of unhappiness arise from the belief that the government of these indebted nations did not tightly control their public
spending and in the case of Greece, took advantages of irregularities in their accounting procedures to gain access to capital from the EU (Donadio).

Unhappy citizens have taken out their frustration on their leaders, where in Germany, President Angela Merkel’s ruling coalition lost their seat in North West Westphalia in 2010 and faced a shortage of votes that was required to pass legislation which would increase the Eurozone’s bailout fund in 2011 (Davis, Conolly).

**Attitudes towards the EU and other European citizens**

The debt crisis has also affected the attitudes towards integration and the opinions that Europeans have against each other. Europeans are divided on the use of further austerity measures, the bailing out of economies and the EU government having oversight over their national budgets (“European Unity”).

These divisions have led to mixed views on the EU and its institutions such as the ECB. According to a survey taken in 2012 among citizens in eight different European countries (them being Britain, France, Germany, Spain, Italy, Greece, Poland and the Czech Republic) by Pew Research, only 5 countries viewed the EU in a favourable manner. However, out of those 5 countries, only Germany believed that economic integration from the EU helped their economy. This is most likely due to the fact that the German economy has remained the strongest in the region and was the only economy that experienced growth during 2010 and 2011 (Kulish).
However, with regards to the attitudes towards the ECB, only Poland viewed the supranational institution favourably. This could be due to the fact that citizens in both the indebted nations and countries that contributed most to the bailout fund are unhappy with it as mentioned above.

![Mixed Views of European Unity](image)

In terms of attitudes towards other Europeans, Germany was the most admired nation in the EU with its citizens viewed as the region’s most hardworking people.

On the other hand, Greece was viewed unfavourably among every nation polled. Also, countries viewed workers of Greece and Italy as among the least hardworking in Europe (“European Unity”).

![Stereotyping in Europe](image)

The research has shown that the crisis has served to reinforce stereotypes, both positive and negative, of the different nationalities in Europe.
**Perceived Inequality**

Another factor that has fuelled anger in the region is the perceived inequality among the countries in the Eurozone. Despite the ongoing financial turmoil, Germany, the biggest economy in the Eurozone, was still growing, with a 3% growth in GDP for 2011 (Ro). Its unemployment levels were at its lowest since the German reunification and its consumers were seen to be spending at healthy amounts (Kulish). On the other hand, the Greek economy contracted by 6.8% in 2011, with an 18.4% unemployment rate (Benssason, “Greek Unemployment”).

The inequality has caused unhappiness in countries such as Greece and Spain, with citizens calling the harsh austerity imposed on them as the “German domination” (Kulish). According to Phillip Whyte, senior research fellow at the Center for European Reform, citizens in other countries are angry at Germany for recommending painful austerity measures without even experiencing it for themselves (Kulish). Anti-German sentiment is exceptionally high in Greece, where 78% of those polled for the Pew Research survey stated that they viewed Germany in an unfavourable manner (“European Unity”).

**State of the EU and a Greek Exit?**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2012</th>
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<tr>
<td>Czech Rep.</td>
<td>45</td>
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</tr>
<tr>
<td>Poland</td>
<td>63</td>
<td>48</td>
<td>-15</td>
</tr>
<tr>
<td>Spain</td>
<td>67</td>
<td>54</td>
<td>-13</td>
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<tr>
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</tr>
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<td>Germany</td>
<td>63</td>
<td>65</td>
<td>+2</td>
</tr>
<tr>
<td>Greece</td>
<td>--</td>
<td>43</td>
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*PEW RESEARCH CENTER Q34.*
According to the survey conducted by Pew Research, the results show that all but one country, Germany, has seen participation in the European Union in a positive light. As Germany has been the only country to see its economy growing despite the debt crisis, it is understandable that most respondents would feel this way. At the same time, the results shows that faith in the EU has been faltering among other member states during the course of the crisis (“European Unity”).

While there has been no concrete plans of a Greek exit from the EU, there has been a division of unity among governments in the EU. This was shown in 2012, when negotiations for the Greek austerity package was ongoing. While France was willing to renegotiate the terms of the bailout agreement, other countries such as Germany, Austria and the Netherlands were unwilling to, due to their scepticism of the ability of the Greeks to pay off their obligations (Hewitt).

At the same time, while countries have not publicly demanded that Greece exit from the EU, this may only be due to the massive implications that it may cause. These include a prolonged recession, capital flight, the collapse of the banking system and the billions of dollars that they stand to lose from the loans that they had extended to Greece (Kollewe). As such, states remain highly divided on the issue of a Greek exit from the EU.

**Conclusion: Current State of the EU Crisis**

The situation in the indebted nations has remained dire, with fears that Portugal, Spain and Italy would request bailouts from the troika (EU, ECB and IMF). While Mario Draghi, President of the ECB, has introduced an unlimited bond-buying measure in September 2012, it is unknown how far the ECB is willing to go to bailout these countries. At the same time, there is unwillingness in these countries to request for bailouts, with Spain and Italy stating that they would not accept any financial packages with tough austerity measures (Prately, Armitstead).

Also, legal challenges have been brought up in the German Federal Constitutional Court, with lawyers stating that the ECB would violate European treaties with its bond-buying measures. Although the case is still ongoing, it will prove to be a difficult legal issue due to the fact that the ECB answers solely to the European Union, and not to the German court (Ewing).
With the debt crisis still ongoing, the different attitudes and behaviours of Eurozone members have exposed severe divisions within the union at both the citizen and inter-governmental level. These differences create a layer of complexity that make it difficult to tackle the debt crisis in a controlled and unified manner. As such, it is expected that the relationships in among members will remain fractious, with the EU continuing to be a turbulent region in the months or perhaps years to come.
Works Cited


