The "Only Cure?": Greek Debt, Austerity, and Narratives of Crisis

Trevor Oggins

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University of California, Irvine

Department of Political Science

Advisor: Erin Lockwood

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Abstract

The Greek Debt Crisis refers to the period of time when Greece was unable to make payments on its high levels of sovereign debt in the wake of the Great Recession. As a condition of aid, a group of institutions, consisting of the European Union, European Central Bank, and International Monetary Fund insisted that Greece impose austerity to restore the country to fiscal health. This is puzzling because austerity is a contractionary policy, which is not always prudent in a recession. Keynesian economics suggests that governments spend during economic downturns in order to stimulate the economic growth. To address this puzzle, I collected articles from the *Financial Times* relating to Greek debt from the years 2008 to 2012. I find that the narrative framing of Greek debt as a crisis served to legitimize austerity as a policy. These findings are important due to the influence of these ideas about debt today, even if they are misguided.

Keywords: Great Recession, austerity, debt, crisis, narrative framings

1. Introduction

The global financial that began in 2007 had far-reaching consequences. In the aftermath of the Great Recession, many European countries faced balance-of-payments crises, as they were unable to repay the large debts owed to their creditors. In Greece, the situation was particularly dire. Greek debt was extremely high, with the country sporting a debt-to-gross domestic product (GDP) ratio of was 104 percent in 2007; debt continued to rise over the course of the next decade, peaking at 190 percent of GDP in 2018 (Federal Reserve Economic Data 2022). Greece struggled to make payments on its debt in the aftermath of the crash, with devastating consequences for the Greek people and Greek economy.

Over time, Greece's debt burden would become accepted as a crisis. European countries, such as Germany, and international institutions, specifically the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Union (EU) [also known as "the Troika"], came to aid Greece, on the condition that the Greek government would agree to austerity, or deep cuts to social spending. Some experts, such as former Federal Reserve Chairman Ben Bernanke (2015), expressed concern at the pursuit of austerity, a contractionary economic policy, as it may exacerbate the existing economic decline from a recession; instead, some believe that it is best pursue expansionary economic policies such as deficit spending to promote economic growth. Others, such as German Finance Minister Wolfgang Schäuble, supported austerity as the best way to resolve the Greek debt problem, declaring in 2011 that austerity was the "only cure" for the debt crisis (Schäuble 2011).

Austerity had disastrous effects on the Greek people and the Greek economy. In the years after 2010, unemployment rose and millions fell below the poverty line (Oxfam 2013). Many of the spending cuts were to healthcare expenditures; due to this, millions also lost access to vital

medical care (Tyrovolas et al. 2018). Additionally, the Greek economy continued to shrink after the austerity measures were implemented, with negative growth every year between 2009 and 2016 (Federal Reserve Economic Data 2022).

Given these results, it is puzzling as to why these countries and institutions insisted that austerity was the response of first-resort. Alternative courses of action to alleviate the Greek debt burden were possible and the severity of the austerity program could have been limited. For example, Blyth (2013) proposed an alternative approach whereby Germany or the European Central Bank would buy modest amounts of Greek debt and bury it in its balance sheet, which would partially alleviate Greece's debt situation. Instead, European governments chose not to intervene until 2010, recruiting the IMF to provide portions of the bailout fund and, along with the EU and ECB, promote austerity as the desired policy response.

This paper seeks to determine whether the narrative framing of Greek sovereign debt as a crisis legitimized the pursuit of austerity driven by the Troika. I argue that the narrative framing of Greece's high level of sovereign debt as a crisis made it the "obvious" response to pursue austerity, simply because the institutions involved treated it as the default policy and did not seriously consider alternatives for an extended period of time. To do so, I have drawn from articles from the *Financial Times* newspaper from the years 2008 to 2012. I find that the narrative framing of the Greek debt burden as a crisis allowed officials to promote austerity as the primary solution to the problem. These findings are important because they aid our understanding of crises as events that constrain some policy actions while enabling others. In this case alternative actions to addressing the Greek debt burden were discarded in favor of austerity. Additionally, this paper can help to illustrate why austerity continues to be a favored solution to address issues of debt and deficits, which continue to be relevant today.

2. Background

Greece has had a reputation for macroeconomic instability since the 1980s. During that time, first conservative, then socialist governments ran persistently expansionary policies that led to large growth in Greek debt relative to GDP (Blyth 2013; Oltheten, Pinteris, and Sougiannis 2003). Throughout the 1980s, attempts to achieve macroeconomic stability were thwarted by further economic expansion during election years, to the benefit of the incumbent government (Oltheten, Pinteris, and Sougiannis 2003). Greece was also beset by weak tax collection and endemic corruption, which further hindered economic progress (Blyth 2013). Government revenue could simply not match government expenditures. While some form of stability was achieved in the 1990s due to reforms intended to get Greece into the European Union's Economic and Monetary Union (EMU), debt levels remained high. By 2000, the Greek debt-to-GDP ratio stood at 105.8 percent; it would continue to rise up until the financial crisis of 2008, peaking at 108.3 percent of GDP in 2005, and continued to rise after the crisis began, reaching 183.9 percent of GDP by 2011 (Federal Reserve Economic Data 2022).

Greece's accession to the eurozone in 2001 gave it access to capital that it ordinarily would not have received, given its history of uneven macroeconomic performance. The implicit backing of the euro by Germany gave Greece more credibility with investors than it might ordinarily have had, giving the country access to loans at lower terms than usual (Tooze 2019). This fueled even more domestic spending, which ultimately "raised Greece's labor costs relative to its Euro Area neighbors," making it less competitive and increasing its current account deficit (Blyth 2013).

3. Literature Review

3.1. Politics of Sovereign Debt

There is considerable scholarly disagreement about at what point high levels of sovereign debt have negative consequences for macroeconomic and other outcomes. Some economists see high levels of sovereign debt as a potential drag on economic performance. The paper "Growth in a Time of Debt" by Carmen Reinhart and Kenneth Rogoff (2010) found that a debt-to-GDP ratio over 90 percent spells trouble for economies, as this will severely constrain growth. This paper proved to be controversial. Herndon, Ash, and Pollin (2013) attempted to replicate their study and were unable to do so. The Reinhart-Rogoff study was tainted by three glaring errors: "(i) selective exclusion of available data, (ii) coding errors and (iii) inappropriate methods for the weighting of summary statistics have generated serious measurement problems that produce inaccurate figures on the relationship between public debt and growth" over their selected time period (Herndon, Ash, and Pollin, p. 258). However, the Reinhart-Rogoff study proved to be influential despite its flaws. Many conservative politicians used it as an argument to justify austerity policies across the United States and Europe (Cassidy 2013). However, it is unclear as to the precise influence of the study in the push for Greek austerity, as the push for austerity in Greece began before the publication of the Reinhart-Rogoff article.

One of the primary causes of Greek indebtedness in the mid-to-late 2000s is due to over-borrowing by the Greek government. Oatley (2019 p. 251) writes that that "the Greek government borrowed heavily from foreign lenders to fund budget and current account deficits." The accession of Greece to the eurozone in 2001 resulted in lower borrowing costs, as German backing of the euro gave the Greeks more credibility with markets. Further, according to Clausing (2019 p. 130), "investors had initially been eager to loan to the Greek economy by

buying Greek bonds and other financial assets." Thus, Greek debt was seen as a safe investment due to the political construction of the eurozone.

Although austerity would be framed as the only possible response to high levels of Greek debt, there were, in fact, other options available. One of these was defaulting on that debt. Economists typically view a country defaulting on its debt as undesirable because it may lose the trust of lenders and face future exclusion from capital markets (Eaton and Gersovitz 1981). However, Adam and Grill (2017) develop a model as to when it is optimal for countries to default on their debt. They find that defaulting on sovereign debt transfers resources from creditors to debtors when a state faces financial constraints in repayment. Greece certainly faced these constraints. In the Greek case, they conclude that the Greek debt default was neither large enough nor timely enough. This is because European officials were primarily concerned with pushing Greece to pursue austerity as the primary solution to the crisis.

3.2. The Politics of Crisis

A crisis can often act as a turning point in time for political actions (Samman 2019). These crises can evoke a variety of narratives, including narratives of blame; an example of this is the blame directed toward the Bush Administration for their inadequate response to Hurricane Katrina (Seeger & Sellnow 2018). In the Greek case, the country was often blamed for its own fiscal profligacy, ignoring the role of institutions in allowing the situation to happen. Phillips and Rimkunas (1978) provided an early attempt to define the nature of crisis in international relations. They explore "catastrophe theory," which they define as "qualitative mathematical model that helps in the description of systems that have the characteristic of sudden large changes in behavior" (Phillips and Rimkunas 1978, p. 260). For the purpose of this paper,

mathematical models are an inadequate medium for analyzing the articles collected from the *Financial Times*, as I am concerned with qualitatively analyzing past actions and statements.

Widmaier, Blyth, and Seabrooke (2007) offer a different model of crisis politics in international relations. A crisis begins with a defined “turning point,” followed by “uncertainty over [the] intersubjective context” (uncertainty over how to respond to the crisis), “context of [the] expressive struggle,” (how those in power try to craft a response, often through the political process), and ends with “constitutive effects on state and societal interests” (how state and societal interests change after the crisis) (Widmaier Blyth, and Seabrooke 2007., p. 756). They provide three examples of crises that follow this model, with their analyses reproduced below.

“Turning Point”	U.S. Debates over “First New Deal”– 1930s (Blyth)	U.K. Debates over adjustment and depression – 1920s-1930s (Seabrooke)	U.S. redefinitions of national interest: post-WWII; post9/11 (Widmaier)
1. Uncertainty over intersubjective context:	Uncertainty over classical economics and nature of monopoly	Uncertainty over Victorian/Edwardian values, classical economics, and gold standard	Uncertainty over U.S. national interest and isolationist-pragmatist policies
2. Context of expressive struggle	State and business and labor discourse	Elite and mass discourses	Presidential rhetoric
3. Constitutive effects on state and societal interests	Constitution of aggregate or macro interests	Constitution of new conventions support elite Keynesian “demand-side” economics	Constitution of “crusading” definition of national interest

Table 1: A Reproduction of “Fig. 1: International Turning Points: The Effects of Wars and Crises on State and Societal Interests” from “Exogenous Shocks or Endogenous Constructions? The Meanings of Wars and Crises” by Widmaier, Blyth and Seabrooke (2007)

This framework directly addresses the role of crises as a starting point for societal change and how it leads to future policy choices. In the Greek case, we see that the sovereign debt crisis was used to promote new policies, such as the intervention of the International Monetary Fund (IMF) in a developed country and punishing austerity measures imposed by outside forces.

‘t Hart and Tindall (2009) offer a view of crisis as a “framing contest” between different narratives, where only one wins in the end. They argue that “[c]rises invite four types of framing efforts, concerning 1) the nature and severity of a crisis, 2) its causes, 3) the responsibility for its occurrence or escalation, and 4) its policy implications.” Along with Widmaier, Blyth, and Seabrooke (2007), this article provides a lens to observe the crisis that yields important insights. Through the political process, the Greek crisis was deemed to be severe, was seen as caused by profligate spending, Greece itself was deemed to be responsible, leading to the pursuit of austerity in exchange for a bailout.

3.3. Austerity

Blyth (2013) defines austerity as “a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness” (p. 2) by way of cuts to social expenditures, which should reduce a country’s budget deficit and debt burden. In theory, this should reduce public debt and a country’s debt-to-GDP ratio. However, these policies do not always achieve their stated goals. House, Proebsting, and Tesar (2019) find that austerity policies across several different countries after the Great Recession resulted in a drag on GDP growth, which actually increased these countries’ debt-to-GDP ratios, with Greece being one of the states most affected. While some see austerity as potentially “expansionary,” this claim is challenged by other existing empirical evidence.

Another potential reason for the imposition of austerity is the structure of the eurozone itself. Typically, when a country faces balance of payments issues, it can either adjust externally by devaluing its currency or reflating its economy, or adjust internally by implementing austerity measures (Stiglitz 2016). A country in a common currency area, such as the eurozone, loses the

ability to adjust externally and thus must adjust internally, through austerity. Greece, as a member of the eurozone, had to adjust internally through austerity.

Austerity was also seen as an important policy due to the belief that fiscal consolidation would restores "credibility" with markets, as seen with low interest rates and easier access to capital (McMenamin, Breen, & Muñoz-Portillo 2014). A country's credibility with markets also extends its credit rating, as a country with a good credit rating is seen as a safer investment opportunity, resulting in investors demanding lower interest rates on its bonds (Paudyn 2012). To proponents, austerity does not just reduce the budget deficit, but it sends the signal that the country is a safe investment, making it a desirable investment opportunity and resulting in an inflow of capital; this is known as "expansionary fiscal consolidation" (McMenamin, Breen, & Muñoz-Portillo 2014). This increases the power of external parties, such as credit rating agencies and foreign investors, over domestic economies, eroding the power of democratic governance. In an effort to attract necessary foreign investment, governments must cut their spending, in the hope that the inflow of capital into the country will help to reduce the budget deficit. In the Greek case, bond yields continued to rise and external ratings agencies repeatedly downgraded Greek credit. The announcement of austerity packages, at times, calmed the markets. However, there was no associated fiscal expansion, in line with the findings of House, Proebsting, and Tesar (2019).

4. Methods

The study was performed using interpretive methods to analyze a large number of news articles from the *Financial Times*, considered the paper of record for international business and economics news. Access to the *Financial Times* database was obtained using a free subscription provided by the University of California, Irvine libraries.

The data was obtained using the search term "Greece debt" for each of the years spanning 2008 through 2012. Each year was search individually, with parameters from January 1 through December 31 of each year. This was to ensure that every article containing that search term that year would appear in the search. These years were chosen because they encompass the span of the initial shocks from the global financial crisis through the negotiations of the second bailout package.

The years 2010 through 2012 yielded too many articles than could be displayed in the *Financial Times* database, as they are limited to 1000 articles at a time. The articles were then filtered through an additional term available in the menu, "Greek economy." This was to ensure that the articles shown would remain relevant to the topic while narrowing the list down to a number where articles spanning the entire year could be displayed.

The data was then interpreted through the framework of crisis advanced by Widmaier, Blyth, and Seabrooke (2007). First, I identified a turning point in the data. I then examined where and how the uncertainty over the intersubjective context appeared followed by the context of the expressive struggle, before showing how state and societal interests were reconstituted by the crisis. A summary of the data analysis is presented on the next page, based on the table created by Widmaier, Blyth, and Seabrooke presented in section 3.2. This model was beneficial in generating insights into how austerity became the response to the high levels of Greek debt.

"Turning Point"	High levels of Greek sovereign debt are deemed to be a "crisis"
1. Uncertainty over intersubjective context:	Uncertainty over proper response to crisis, uncertainty over whether to resort to austerity or restructuring of debt
2. Context of expressive struggle	Rhetoric of European leaders, institutional actors
3. Constitutive effects on state and societal interests	Austerity is the preferred response to the crisis among the EU, IMF, and ECB, followed by populist backlash

Table 2: Application of the theoretical framework articulated by Widmaier, Blyth, and Seabrooke (2007)

Uncertainty over the intersubjective context of a crisis appears when people involved in responding to a crisis attempt to determine what the correct response should be; multiple courses of action should exist. For there to be an expressive struggle, those trying to exert influence in the events after the crisis must publicly reveal their views as to the proper response to the crisis and to ensure that those views are legitimized through the political process. These produce constitutive effects on state and societal interests when new practices emerge in the aftermath of the crisis.

The analysis of the data was limited by the reliance on news articles from one newspaper. No data was drawn from Greek newspapers, which limits the ability to fully draw out the Greek perspective on austerity in the data. I also did not draw from heterodox sources, which could limit the amount of insights from more underrepresented groups affected by austerity. However, this project is concerned solely with the dominant narrative of the crisis, as expressed in news coverage from 2008 through 2012. The analysis is also limited by the dates chosen, as the time period from 2008 through 2012 excludes later developments in the crisis. Events from outside the chosen dates will be briefly addressed in the conclusion.

Additionally, the reliance on only one search term, "Greece debt," may limit the reach of the data collected. Although this search term produced many articles pertaining to the Greek

government's pursuit of austerity, additional data collection using more search terms, such as "Greece austerity," could be beneficial in future research. Other search terms such as "Greek debt crisis" may have aided in fully pinning down when the Greek debt officially became a crisis. The data on when it exactly became a crisis is somewhat lacking.

It is also possible that the Greek case is not a representative point of comparison for other cases pertaining to the relationship between debt, crisis, and austerity. Greek fiscal instability long predates the Great Recession and ensuing debt crisis. This could also simply be a case of long-held problems coming to a head as opposed to a perfect case of debt, austerity, and crisis. Thus, the lessons drawn from this paper may not be perfectly generalizable to similar cases. It is unlikely however, that such a perfect case of debt, austerity, and crisis exists. Thus, this paper may provide some, insight into the nature of debt, austerity, and crisis more generally.

5. Analysis

This section will address the data collected from the *Financial Times* through the lens of the framework laid out by Widmaier, Blyth, and Seabrooke. Each subsection will focus on one aspect from the model: the turning point in the crisis, the uncertainty over the intersubjective context of the crisis, the context of expressive struggle over the proper response, and the constitutive effects of the crisis on Greek state and societal interests.

5.1. The Turning Point

European leaders were expressing concern about the Greek fiscal condition by 2008, setting the stage for future European action. In early 2008, European officials began encouraging Greece to reduce their deficit. In May of that year, the European Central Bank (ECB) vice-president Lucas Papademos called for Greece to "liberalise its labour and product markets, improve productivity and hold down wage increases over the medium term," making the country

more economically competitive and avoiding a “painful correction” (Hope and Atkins 2008). Papademos’ suggestions are similar to the definition of austerity advanced by Blyth, as referenced in section 2.3. Here, the ECB is calling for Greece to prevent public-sector wages from rising, as well as “liberalising” labor and product markets, freeing these markets from government regulation, which should, in theory, make the Greek economy more competitive. However, Greek leaders, at that time, were confident that such a “painful correction” could be avoided (Hope and Atkins 2008). Officials from various governments were already expressing concern about Greece’s fiscal condition, setting the stage for future European action. Later, in September 2008, the economic situation began to deteriorate. Bond yields in Greece rose relative to Germany (the largest economy in the eurozone), making it more expensive to for Greece pay the interest on its debt. This slows economic growth and makes the economy less competitive with other countries. Greece’s economic outlook was described as “gloomy,” further foreshadowing future economic problems (Oakley 2008). Despite this outlook, European officials mostly expressed concern, rather than alarm, at the Greek fiscal situation.

While neither the media nor any politicians had yet deemed Greece’s fiscal woes to be a crisis. Mention of a crisis among European nations appears in the data from this time period, but that seemed to be in reference to the ongoing global financial crisis, and not specific to Greek debt (Hope 2009c; Oakley 2009). However, there were early signs of the political fallout of a pending crisis. Initially, political recriminations came from within Greek domestic politics. In early 2009, Greek Finance Minister George Algoskoufis was fired amid “deteriorating public finances,” including the continually ballooning budget deficit (Hope 2009a). Later consequences would be imposed externally. In April 2009, a group of eurozone finance ministers told Greece to address its “spiralling” deficits (Barber 2009a). In response, Yannis Papathanassiou, the new

Greek finance minister promised to reduce debt by 2010; he did not specify how this would be achieved, but he did recognize the debt as a problem (Barber 2009b). Still, European officials had not yet labeled the debt as a crisis. Prior to this announcement, the Greek government had instituted a freeze in public sector salaries in order to help reduce the budget deficit (Hope 2009b). This action is in line with the instructions given by Lucas Papademos in 2008. While the situation was still not a crisis, and austerity was not mentioned as a potential response, it is telling that the immediate response to reducing the deficit was to cut spending. However, official concern with the lack of fiscal discipline continued, as then-German Finance Minister Peer Steinbrück criticized several unnamed countries (one implied to be Greece) for their lack of commitment to the goals of fiscal responsibility set out in the European Union's stability and growth pact (Hope and Barber 2009). Greece's fiscal situation was still cause for concern, but not a yet a crisis.

The first mention of any sort of "Greek fiscal crisis" appeared in the data in February 2010 (FT Reporters 2010). One month earlier, Greece had been caught falsifying economic data, as its reported budget deficit was four times as high as the projected budget deficit in April 2009; this drew condemnation from the European community and led to credit downgrades and rising bond yields (Barber 2010a). The resulting anger towards Greece, combined with the growing acceptance of the high levels of Greek debt as a crisis, functioned as a turning point in the European community's attitudes toward Greek debt. While European officials were previously only concerned about the country's debt levels, this concern escalated into anger towards the Greek government. This anger was the catalyst toward a more defined policy response. This response would be austerity.

These events prompted the European Union to increase supervision of Greece. They did not believe that Greece was in danger of defaulting on their debt, despite economists seeing issues with the country's debt burden (Barber 2010b). The fears of economists were reflected by investors (Oakley 2010a). The rising bond yields reflected the uncertainty of investors as to the prudence of investing in Greek bonds, given the faltering financial situation. Investors demanded higher returns on their investment (i.e. higher interest rates) as a trade-off for the less-than-stellar macroeconomic conditions. This indicates that Greece was beginning to descend into crisis.

Ultimately, the framing of the high levels of Greek debt as a crisis served as the turning point that legitimized austerity as a proper policy response. Prompted in part by anger over the falsification of economic data, austerity would become the policy on which a bailout would be contingent. While other policies, such as debt restructuring, were discussed among European officials, they were cast aside in favor of austerity. This will be explored in the succeeding sections.

5.2. Uncertainty over intersubjective context

After the labeling of Greek debt as a crisis, there was uncertainty over the proper policy response to address it. In late 2009, European Union finance ministers expressed anger at Greece for its large budget deficit and called for European countries, including Greece, to reduce their budget deficits; later, the new Greek government agreed to reduce budget expenditures for 2010 (Barber 2009c; Kontogiannis 2009). While Greek debt was not yet seen as a problem in 2009, it is striking that budget cuts were the first policy that policymakers proposed in the wake of the economic downturn. As Greek debt became to be accepted as a crisis in early 2010, Prime Minister George Papandreou announced that his government would pursue austerity regardless of the political cost as a form of "belt-tightening" in order to reduce the debt burden

(Kontogiannis 2010a). These cuts would be described as “painful” and contained a combination of tax increases and spending cuts (Hope and Atkins 2010; Kontogiannis and Oakley 2010). Restructuring of the debt was not discussed a possible option at this time, as it would negatively affect holders of Greek debt, including German and French banks, making it a nonstarter for Germany and France (Beattie 2010). Austerity was to be the initial response to the crisis.

While Greek economic situation had continued to deteriorate by September 2010, the IMF did not believe that a debt default was likely; the markets continued to disbelieve the leaders and believed that Greece would have to restructure its debt (Harding 2010). The Greek government agreed with the IMF that default was not likely, further claiming that default would irreparably damage the eurozone (Oakley and Hope 2010). Though debt was seen as a problem, and officials saw it as a drag on economic performance, they did not see solutions such as a default or debt restructuring as a possibility. While investors saw restructuring as a potentially necessary solution, European officials did not share their beliefs. Austerity and a bailout remained the preferred solution to the crisis.

By November 2010, restructuring was increasingly discussed as potential policy tool to reduce Greece’s debt burden, although still not the primary means of doing so. The chief economist at Barclays commented that Greece would have to focus on continuing fiscal adjustment before resorting to restructuring (Ghezzi 2010). This again illustrates the view that spending cuts were the priority for cutting debt as opposed to restructuring. While debt restructuring existed as one viable alternative, European officials continued to disregard it in favor of austerity. Additionally, In January 2011, Greek Prime Minister George Papandreou called for a common European bond in hopes of reducing debt-service payments; this was rejected by the German and French governments as they did not want to increase their own debt

burdens (Hollinger 2011). This is another clearly defined alternative to austerity. Reduced debt service payments would reduce the need for the Greek government to cut their spending. The rejection of this option, out of pure self-interest, by the two most powerful countries in Europe shows that those in power were still more inclined toward austerity as a solution to the crisis.

5.3. Context of expressive struggle

Discussions among officials also led to the result that austerity would be the preferred response to the crisis. By April 2010, the Greek debt situation appeared dire. European governments began discussing bailing out the struggling Greek economy, contingent on stringent spending cuts. During this time, German Chancellor Angela Merkel declared that any bailout for Greece would be contingent on fiscal consolidation, reflecting the views of the German political, economic, and media establishment (Peel and Weismann 2010). This desire reflects German beliefs about the importance of fiscal restraint, which informs much of the fiscal stability requirements of the European Union (Blyth 2013). The framing of debt as a crisis, as well as prior calls for Greece to control its fiscal situation, made austerity a more likely solution. Additionally, the International Monetary Fund and the European Union had become involved in the imposition and negotiation of both bailout and austerity packages (Kontogiannis 2010a; Hope and Oakley 2010; Beattie 2010; Peel, Hall, and Chaffin 2010). The first austerity package was agreed to by Greece and the Troika on April 30, 2010, calling for €24 billion worth of cuts. (Hope 2010c). This package helped calm markets for the time being (Raval 2010). Austerity became the chosen policy response from the international institutions.

In an effort to reduce national debt, Greece resorted to privatizing parts of their government services by selling €50 billion worth of services, and was encouraged to do so by the EU and IMF, with the hope that it would reduce debt by up to 15 percentage points (Hope

2011a). During this time, it became apparent that Greece's financial situation was still faltering as Merkel considered "extending the term of the bailout;" default was increasingly seen as being an option (Peel, Shotter, and Hope 2011). As bond yields continued to rise, Papandreou and Schäuble increasingly discussed the need for restructuring (Hughes 2011). Despite these talks, George Provopoulos, the governor of the Greek central bank, ruled out the possibility of restructuring for the time being, which was at odds with the statements from the key players in the bailout (Hope 2011b).

The continued economic volatility led to leaders to move toward a second bailout, which markets responded well to (Hope and Oakley 2011b). However, disputes between the European Union and European Central Bank over debt restructuring briefly jeopardized the agreement; the EU favored restructuring and the ECB opposed it (Atkins 2011). Additionally, European leaders began to agree that a debt default was likely; there was slight disagreement over what exactly would happen but there appeared to be a belief that private bondholders would be involved and that they would have to take haircuts on their debt (Spiegel and Jenkins 2011). The conversations over the debt default would begin to form the basis for the second bailout. Negotiations over the second bailout package would take place throughout much of late 2011 and early 2012. One of the largest sticking points was the involvement of private creditors. Some EU officials saw leaving out private creditors as "less expensive and less risky" but that some states saw it as nonnegotiable, despite the fact that it would increase the tax burden of European taxpayers; a critic describes these measures as "cosmetic" and a face-saving measure (Chaffin and Spiegel 2011). These debates continued until an agreement was reached in February 2012. This package also included austerity terms described as "tough," but did include provisions for debt restructuring, which were not present in the first bailout (Spiegel, Wiesmaann, and Steinglass

2010). While restructuring had finally appeared as an option for addressing Greece's debt, austerity had become the policy of first resort for solving the problem.

5.4. Constitutive effects on state and societal interests

Ultimately, the austerity became the response that the Troika, supported by other European countries, imposed on Greece in exchange for a bailout that would help to further reduce the country's debt burden. Austerity was the policy led to the reconstitution of state and societal interests. After an austerity package was passed, eurozone countries prepared a €30 billion bailout package for Greece, with further assistance from the International Monetary Fund (Hope 2010a). The involvement of the IMF proved to be an unprecedented intervention in a developing country (Tooze 2019). The IMF demanded surveillance over the economy and further cuts to public spending amid fears of future debt restructuring (Hope 2010b). The narrative framing of Greek debt as a crisis caught on and this enabled the intervention of the IMF in Greece, as previous interventions had all been in developed countries. The IMF was satisfied with the early results of Greek cuts, but analysts were becoming doubtful that a restructuring of the Greek debt could be avoided (Hope 2010d). Despite the attempts of the Troika to prioritize austerity over restructuring, outside experts still believed that restructuring would be an inevitable response to the crisis.

On May 2, 2010, a €110 billion bailout package was announced with the involvement of the EU, the IMF, and the ECB, contingent on steep spending cuts for Greece (Hope, Tait, and Peel 2010). These spending cuts had the goal of drastically reducing the Greek budget deficit and stabilizing the level of debt. While the goal of the package was to calm markets, the immediate reaction of investors resulted in a drop in the value of the euro and speculation among analysts that Greece would have to resort to restructuring (Oakley 2010b). While analysts believed that

restructuring would be a beneficial policy choice, austerity remained the preferred response. The state and societal interests of Greece were now to center around austerity as the policy for resolving the problem.

The institutions involved in the Greek bailout and austerity packages wanted even more cuts from the government, even as the economy continued to shrink and tax revenues fell (Hope 2010e), demonstrating that austerity had been successfully legitimized as the proper response to the crisis. By late 2010, Greece was preparing for more spending cuts for the year 2011, cuts that were deeper than what was proposed by the IMF; these cuts were necessary to unlock funds from the bailout package (Kontogiannis 2010b; Kontogiannis 2010c). This seriousness about austerity should have had the effect of restoring credibility to Greece as an investment opportunity. In theory, austerity should help restore credibility with investors, making them more likely to invest in the country and demand lower returns on their investment. However, this did not happen as, in early 2011, credit rating agencies downgraded Greek credit once again; bond yields rose accordingly (Hope and Oakley 2011a; Oakley and Hope 2011).

By April 2011, there were further signs that austerity was not working as intended, as investors continued to fear restructuring, despite the commitment not to restructure the debt, and the Greek government's belief that it needs more time to convince the markets of its commitment to fiscal responsibility (Hughes 2011). The policy simply was not working, even as officials continued to insist otherwise. By July 2011, it became apparent that the bailout package was not working as intended. Papandreou called for support for another austerity package in exchange for a second bailout package from the EU and IMF (Hope 2011c). Again, austerity was the response as opposed to restructuring, even if austerity was not having the desired effect on the Greek economy.

Later, in December 2011, Papandreou lost the capacity to govern and was replaced by a center-right caretaker government. The new caretaker prime minister was Lucas Papademos, who warned that the country would face "years of austerity" (Hope 2011b). The elevation of Papademos, who called for cuts to wages back in 2008, marks a literal reconstitution of state and societal interests. Austerity became the default policy for the Greek crisis, and one of the early advocates of the policy was now the head of government.

While the move to implement austerity represents reconstitution of state interests, the populist backlash to austerity represents a reconstitution of societal interests. As a result of the turmoil fueled by the years of austerity, populist parties on the left and right that challenged the two established parties on the center-left and center-right. In 2012, Syriza, a left-populist political party that opposed austerity, achieved an unexpected second-place finish in the first of two elections that year, on the platform of scrapping the existing the bailout agreements in their entirety (Chaffin 2012). The party would again finish in second place in the second election of that year (Barber and Hope 2012). On the populist right, Greece faced right-wing violence, with people sympathetic to the neo-fascist party Golden Dawn (which also made surprising gains in the 2012 elections) causing violence throughout Athens (Hope 2012; Chaffin and Hope 2012). Ultimately, the framing of Greek debt as a crisis had reconstituted Greek society in two ways: one, by making austerity an acceptable policy for reducing the Greek debt burden, and two, the resulting backlash to austerity that empowered populist forces to challenge the political establishment.

6. Discussion/Conclusion

Although this paper stops in 2012, the Greek debt crisis continued well beyond that year. Austerity measures continued into 2013 as a condition of accessing funds from the second

bailout negotiated in 2012. In 2015, Syriza, led by Alexis Tsipras, won a surprising election victory on a platform of renegotiating the bailouts and resuming generous public sector spending; instead, Greece would default on a debt payment and be subjected to a punishing third bailout package. Greece would eventually exit the bailout program in 2018 (Council on Foreign Relations, *Timeline: Greece's Debt*).

The purpose of this paper was to explore why international actors insisted that austerity was the proper response to reduce Greece's debt burden in the years after the Great Recession. I have found that the narrative framing of Greek debt as a crisis enabled these actors to insist on austerity as the solution, using austerity as the precondition for the bailout packages that were supposed to help the country improve its fiscal situation. The result of the crisis framing was the reconstitution of Greek state and societal interests around austerity as the policy that would help reduce Greek debt. Ultimately, austerity did not work as intended, as the Greek economy continued to shrink and the debt-to-GDP ratio continued to rise throughout the 2010s.

These findings extend previous literature on the politics of crisis to show how crises act as moments that allow states to take certain actions that may not happen under normal circumstances. The counterfactual that was not explored in this paper was whether austerity would have been the preferred solution to addressing Greece's debt in the absence of a crisis. It is possible that the various officials involved in the process could have spent additional time exploring alternative solutions to alleviating the Greek debt burden, such as restructuring. However, such a counterfactual is not within the scope of this paper.

Additionally, the findings of this paper provide some implications about the politics of debt, austerity, and crises more generally. When discussing debt, politicians often present a country as a household that has spent beyond its means; when a household finds itself in debt, it

can rectify the situation by cutting back on its spending. A country in debt can reduce its debt the same way, through austerity. The simplicity of this framing makes austerity an attractive policy. However, governments have additional fiscal tools to reduce their debt burden than households do not. As stated in section 3.3, countries can engage in currency devaluation or reflate the economy, among other potential policy tools. However, austerity will continue to remain politically relevant because it is a simple policy to understand and provides an effective argument for fiscal conservatives opposed to government spending.

As argued in this paper, the narrative framing of an adverse event as a crisis allows for certain political actions that may not occur in the absence of such frames. While this paper is concerned with the narrative framing of Greek debt as a crisis, the framing of other events, such as climate change, as a crisis, also has an effect on how governments respond. While the scientific community may agree that climate change is a real occurrence, and will have disastrous effects for the human population, a lack of consensus among politicians as to the scope of—or even existence of—climate change means that large-scale efforts to combat the issue do not occur. Crisis framing thus allows for previously unconsidered policy options, or policies that may have been prematurely dismissed, to be debated within the political process.

Even if a government acts during a crisis, an inadequate response can erode the social fabric of a country, contributing to the rise of populist movements dedicated to changing the status quo, as seen with the rise of Syriza and Golden Dawn as a backlash to austerity. While claiming to represent “the people,” these movements exploit the resulting lack of social trust in a population to gain power, presenting some “elite” as a villain, and often scapegoating various outgroups as the real source of problems in the country. These movements, if the seize power, may not be successful in achieving their goals, as evidenced by the failure of Syriza in 2015 to

deliver on its promise to renegotiate the bailout packages and ultimately resulting in the country being subjected to additional punishing austerity measures.

Ultimately, the politics of debt, austerity, and crisis continue to be relevant today. This paper set out to show how the narrative framing of Greece's debt as a crisis legitimized the imposition of austerity as the solution. Future research should address this general question in other cases of countries with high debt burdens, potentially using cases of developing countries as opposed a developed country like Greece.

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