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THE POLITICAL ECONOMY OF THE 2009 GREEK DEBT CRISIS: A REALIST ANALYSIS

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ABSTRACT

Master's Thesis

The Political Economy of the 2009 Greek Debt Crisis: A Realist Analysis

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States political decisions play a crucial role alongside economic indicators in the outbreak of global economic crises. History often goes unheeded, as similar reasons underlie many crises, including the 1929 Great Depression. One reason is the lack of cooperation among states. Although the European Union has been lauded since its inception as one of the most successful examples of cooperation, it tends to sustain its core states' interests. Imprudent economic integration for further political incentives have led to serious structural differences within the Union. These structural differences have caused acute fragility among the periphery economies of the Union and set the stage for the Greek Debt Crisis. The Greek Debt Crisis offers an opportunity to examine the lack of cooperation that has emerged as a result of the self-interested policies of the EU's core states.

This study aims to examine emergent self-interested state behavior in the Greek Debt Crisis from the realist perspective of international relations. The study claims that EU core states tended to pursue their own interests during the Greek Debt Crisis. Core states enjoyed economic improvements despite a short period of negative economic indicators, while the periphery countries suffered serious losses. The study also claims that the main purpose of the rescue packages proposed for Greece is facilitation of the recovery of debts held by core states, most notably Germany, and related international institutions serving the

interests of these states. As a result, contrary to the liberal paradigm, states, especially in times of economic turbulence, opt for gains which may result from leaving cooperation in the short run, rather than gains arising from maintaining cooperation in the long run.

Keywords: Debt crisis, Eurozone, Lack of Cooperation, Germany, Greece

ÖZET

Yüksek Lisans Tezi

2009 Yunan Borç Krizinin Politik Ekonomisi: Realist bir Analiz

Cengiz Mert BULUT

Dokuz Eylül Üniversitesi

Sosyal Bilimler Enstitüsü

Uluslararası İlişkiler Anabilim Dalı

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Küresel ekonomik krizlerin patlak vermesinde ekonomik göstergeler ile birlikte devletlerin siyasi kararları da önemli bir rol oynar. 1929 Büyük Buhran'ı dâhil olmak üzere bu krizlerin altında yatan benzer nedenler tarihten iyi ders çıkarılamadığını göstermektedir. Bu nedenlerden bir tanesi de devletler arasında ki işbirliği eksikliğidir. Avrupa Birliği kuruluşundan bu yana işbirliğinin en başarılı örneklerinden biri olarak kabul görmesine karşın, aynı zamanda onun merkez devletlerinin çıkarlarını gözeten bir birlik haline bürünmüştür. Daha fazla siyasi teşvik için ihtiyatsız bir şekilde atılan ekonomik bütünleşme adımları birlik içerisinde ciddi yapısal farklılıkların doğmasına neden olmuştur. Bu yapısal farklılıklar ise birliğin ekonomisini son derece kırılgan bir hale getirmiş, Yunan borç krizine ortam hazırlamıştır. Yunan borç krizi, AB'nin merkez devletlerinin öz çıkarcı politikalarının bir sonucu olarak ortaya çıkan işbirliği eksikliğini daha iyi inceleme fırsatı sunmaktadır.

Bu çalışma Yunan borç krizi sırasında ortaya çıkan merkez devletlerin öz çıkarcı davranışlarını realist uluslararası ilişkiler perspektifinden incelemeyi amaçlamaktadır. Çalışma, birliğin merkez devletlerinin Yunan borç krizi zamanında kendi çıkarlarını artırma eğiliminde olduğunu savunmaktadır. Kriz boyunca birliğin çevre devletleri ciddi kayıplar yaşarken, merkez devletleri kısa süreli olumsuz ekonomik göstergelerin ardından kendi büyümelerini sürdürmüşlerdir. Ayrıca çalışma, Yunanistan için önerilen kurtarma paketlerinin asıl amacının Yunanistan'ı kurtarmaktan ziyade Almanya'nın başını çektiği merkez devletlerin ve bu devletlerin çıkarlarına hizmet eden

uluslararası kurumların alacaklarının tahsilini kolaylaştırmak olduğunu iddia etmektedir. Sonuç olarak, liberal savın aksine, devletler özellikle de ekonomik kriz zamanlarında kısa vadede işbirliğini terk etmekten doğacak olan kazancı uzun vadede işbirliğini sürdürmekten doğacak olan kazanca tercih etmektedir.

Anahtar Kelimeler: Borç Krizi, Euro Bölgesi, İşbirliği Eksikliği, Almanya, Yunanistan

THE POLITICAL ECONOMY OF THE GREEK DEBT CRİSİS: A REALIST ANALYSIS

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CHAPTER TWO

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ABBREVIATIONS

CM	Common Market
CU	Customs Union
DJIA	Dow Jones Industrial Average
EC	European Community
Ecofin	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
Ed.(s)	Editor(s)
EEC	European Economic Community
EEI	European Economic Integration
EMU	Economic and Monetary Union
et al.	and others
EU	European Union
EURATOM	European Atomic Energy Community
FED	Federal Reserve
FSAP	Financial Sector Assessment Program
FTA	Free-Trade Area
G20	Group of 20
GDP	Gross Domestic Product
IMF	International Monetary Fund
LI	Liberal Intergovernmentalism
NATO	North Atlantic Treaty Organization
p.	Page
PASOK	Pan-Hellenic Socialist Movement
pp.	Pages
SEA	Single European Act
UK	United Kingdom
UN	United Nations
US	United States
Vol.	Volume
WWI	First World War

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INTRODUCTION

The world economy has witnessed several dominant economic systems. Each system has required states and individuals to grasp distinct economic and political regulations, including monetary policies and participation in institutions or unions. Typically, such systems work under the control of one or several strong or hegemonic states. Economic systems shaped by hegemonic powers may be unfavorable for other economies. Each economic system, therefore, has been accompanied by the severe crises. The gold standard was interrupted by the Great Depression of 1920s, while the Keynesian system suffered interruption in the chaotic 1970s, and the global neoliberal system underwent shock in the Global Financial Crisis of 2008.

The general assumption prevailing in the realist theory in International Relations literature includes the dichotomy between high politics and low politics. Based on the impact of state behavior on economic distress, however, this study argues that misleading economic decisions and concomitantly crises may reach a level where they threaten states' vital interests, including their security. More precisely, just as global economic systems do not include solely economic regulations, economic turmoil does not solely originate from fallacious economic policies. As Edward Hallett Carr points out, "the science of economics presupposes a given political order, and cannot be profitably studied in isolation from politics."[1] Political factors and consequences are essential in understanding such crises. National interests shape economic policies, while economic capacity is a crucial element in determining positions in international politics. These connections become more apparent in times of economic crises.

Worse yet, economic crisis may swiftly lead to political crisis. One reason for this transformation is that a state may make radical political decisions to ameliorate the destructive effects of an economic crisis on their economy. These state decisions may vary depending on the size of the crisis or that state's economic and political capabilities and may be categorized as either cooperation or conflict. This study seeks

[1] Edward Hallett Carr, **The Twenty Years' Crisis 1919-1939: An Introduction to the Study of International Relations,** Second Edition, Macmillan Publishing, London, 1946, p. 117.

to address the issue of what global economic crises pave the way for: international cooperation or state-centric competition.

A prominent argument in the (neo) liberal theory in the International Relations literature attributes importance to function of institutions to encourage cooperation and increase benefits. This study, however, claims that the EU has hardly been cooperative pre-and-post Greek Debt Crisis. Therefore, the core consideration of this study is an examination of the behavior of European states and international institutions during the Greek Debt Crisis of 2009. The study seeks to answer the question of: Has EU core states paved the way for the Greek Debt Crisis and worsened it solely by seeking to maximize their own interests instead of aiming absolute gains for all members within the union by exhibiting cooperative state behavior? The subject matter of this study is thus situated at the confluence of two main bodies of literature: international cooperation and economic crises. First, this study aims to unveil uncooperative behaviors of European Union (EU) member states during the most severe economic crisis that EU has ever seen. It asserts that the major goal of EU states, especially Germany, is to maximize their interests rather than saving distressed countries, such as Greece. Furthermore, cooperation during the Greek Debt Crisis paved the way for the exploitation of debtor countries and worsened the crisis. This study thus centers on the validity of liberal assumptions that international cooperation is a favorable policy choice for all parties.

Second, although a rapidly growing body of literature focuses on the factors and consequences of global economic crises, analysis performed solely from an economic perspective may fall short. This study thus aims to provide deeper insight into the global economic crisis literature via investigation from a political perspective. Particularly, political incentives and national interests play a remarkable role in many aspects of economic crises, including its preventing reoccurrence or contagion effects. For example, the political dynamics behind the European Sovereign Debt Crisis of 2012, such as the lack of cooperation resulting from state-centric policies, may be enlightening for future crises.

This study has the following outline. The first chapter concentrates on the theoretical framework and literature review. The first part of the chapter includes theories of international relations which develop many assumptions towards the concept of cooperation, and analyses of cooperation from these theories' perspectives. The two leading theories of international relations, realism and liberalism, are contradictory on these grounds. On the one hand, the realist paradigm is skeptical about international cooperation, asserting that states always seek to maximize their interests and focus on relative gains. In addition to the utility maximization approach of states, competition among states and the absence of a common authority in the international system may undermine cooperation. States eventually tend to abandon cooperation or exploit conditions. Furthermore, realists argue that state power and interests not only affect security studies, but also underlie their economic outlook. EU core states'[2] attempts to preserve their economic interests during the Greek Debt Crisis are noteworthy in this regard.

On the other hand, the liberal paradigm does not deny that international competition and anarchy constitute obstacles to international cooperation. However, it is argued that states eventually overcome such problem through cooperation. States should increase their efforts to cooperate under all circumstances. Unlike the realist paradigm that focuses on the relative gains, liberals emphasize absolute gains; it is enough for a state's gains to be absolute, and not relative. More precisely, one's gain does not need to mean other's loss. With this in mind, states, however, often do seek to maximize their gains under international anarchy and competition. The Greek Debt Crisis has therefore validated this assumption.

Liberals also argue that cooperation decreases the possibility of conflict, while encouraging economic development. International institutions play an important role in this regard. States create institutions to reduce costs deriving from making agreements.[3] Institutions also decrease the possibility of cheating or leaving. Yet, many of these institutions are created through the contributions of rich and advanced countries. Therefore, it is unlikely that they treat all states equally. The Greek Debt

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[2] This study frequently references the EU core and periphery. In addition to core-periphery relationship that refers to Wallenstein's World System Theory, here core states mainly indicate German and France, while periphery indicates Greece, Portugal and Ireland. In this work, Germany and Greece are of primary significance. Another crucial point to note is that even though realism is frequently associated with security and Marxist theory makes reasonable explanations about the economic crises, this study aims to offer a deeper insight to realist state behavior during the economic crises.

[3] Robert O. Keohane, "International Institutions: Two Approaches", **International Studies Quarterly**, Vol. 32, No.4, 1988, p. 386.

Crisis is an excellent opportunity to examine the policies of international institutions as well as liberal arguments.

The second part of the first chapter focuses on a brief outline of the European Union. The EU is one of the most successful cooperation initiatives in political history. Its economic and political integration stages seemed to justify liberal assumptions. However, the European Community (EC) has emerged as a crisis-based project encompassing disagreements and conflicts after the Second World War. Since then, states' self-interested policies have paved the way for reckless economic and political regulations for further integration.

For instance, European Economic Integration (EEI) has broken the resistance of periphery countries' economies, despite EEI's outlook containing many liberal regulations. They gradually require member states to open their markets; abolish trade restrictions; impose common tariffs and quotas for outsiders; converge national economies; and ultimately enter a monetary union, including adoption of the euro. The problem has arisen with the serious economic and political differences between member states. A lack of effective institutions and political regulation in periphery states, such as Greece, offers core states, notably Germany, great opportunity to develop their economic and political structure. More precisely, free trade areas lead to immense trade surpluses for member states with high production capacity, while the periphery experiences trade deficits. With the Customs Union, core states with skilled labor and cutting-edge technology increase their competitiveness. A common market similarly provides the free movement of labor, capital and services. This in turn leads to financial and labor flows into core states, which are more appealing and offer greater opportunity. The monetary union affected the delicate balance in the EU. Many member states, for instance, adopted the euro with inadequate economic conditions. They were nonetheless obliged to implement the same monetary policies as the core, advanced countries of the EU. As a result, certain stages of EEI engendered severe structural problems in the economies of the periphery.

The aforementioned fallacious economic regulations took place for further political integration. After the adoption of the euro, the enlargement process went more quickly. Twelve more countries ascended to the EU in just three years from 2004 to 2007. The momentum of this membership process has affected negatively the adoption of reforms and regulations, considerably opened the way for an economic turbulence in the EU.

The second chapter of this work provides preliminary information about global economic crises since the Great Depression of 1929. Various studies have examined the causes and consequences of global economic crises, but they have been mostly driven by economic indicators. This chapter aims to develop a political understanding of economic crises as well as an economic one. It asserts that a lack of cooperation among states constitutes the one of the leading factors behind economic crises. The Great Depression, for instance, originated from state protectionist policies implemented in the aftermath of First World War. The European Sovereign Debt Crisis of 2012 similarly is an outcome of the EU core states' self-interested policies.

Before the emphasizing the outline of the chapter, it is worthwhile to clarify the relationships among global economic crises. Conflict often occurs between national macroeconomic policies and international or regional macroeconomic policies, including integration steps. States may sacrifice national macroeconomic regulations and adopt new policies for further integration. The converse is also true. These new economic framework or regulations may not be optimal for all economies or states may fail to fulfill their obligations due to internal or external factors. When states fail to adopt such policies, they become more likely to undergo a crisis. Factors, such as high levels of interdependence, globalization, or rapid increases in union and organizational membership, make such crises contagious. In such situations, it may be impossible for states to 'close the gates'. An economic crisis, while not global, may trigger another. Global economic crises, therefore, are a type of vicious cycle and they vary in timing, dimension and role. For example, the consequences of the 2008 Global Financial Crisis led to the 2012 European Sovereign Debt Crisis. Although the essential aim of this study is to examine the political economy of the Greek Debt Crisis, a brief introduction of sections of political and economic causes and consequences of global economic crises will be given.

The first section of this chapter draws an overview of the three global economic crises: The Great Depression of 1929, the Global Financial Crisis of 2008, and the European Sovereign Debt Crisis of 2012. The next section deals with the causes of the Great Depression. Despite its outbreak in nearly a century ago, its political factors, such as the lack of cooperation, are similar to those of today's crises. More specifically, states established a war economy subsequent to the First World War to recover their economies. Despite modest growth, protectionist policies and decreasing confidence due to the war damaged international cooperation. In addition, political and social turbulence on global scale, including heavy impositions imposed on defeated powers in the war, mass migration flows, and labor loss, made consensus difficult, and caused the depression to gain a worldwide impact.

The Great Depression had severe global political consequences which parallel those of today. The rise of extreme right, imposition of the trade restricting measures, including decreasing international cooperation, and being a precursor of a new global economic order are the ones of those consequences. Moreover, the Great Depression accelerated the process which ended up leading to the Second World War.

The next sections examine the dynamics behind the Global Financial Crisis in 2008, which started in the United States and the European Sovereign Debt Crisis of 2012. First, the subprime mortgage crisis in the US underlies the Global Financial Crisis of 2008. Imprudent individual and institutional preferences in the US caused the housing bubble to burst. In addition to these economic roots, political factors such as inequalities among states in international institutions and organizations and the lack of consensus between states on crucial topics played a role in its global spread.

Three key detrimental effects of 2008 Global Financial Crisis are important to note. The first effect is a decrease in the importance of social democratic policies in many distressed countries. Another is that weakening role of the US hegemony and the rise of China became more apparent. The third and most important effect was a sudden cut in liquidity for the rest of the world, resulting in the European Sovereign Debt Crisis subsequent to the Greek Debt Crisis. The US-based Global Financial Crisis is significant in one particular aspect, as it illustrated that despite all cooperation and integration efforts of the EU member states spanning more half a century, any external blow may be sufficient to cause a deep shock.

In addition to the role of the US-led crisis, the European Sovereign Debt Crisis was fundamentally a result of the lack of cooperation between EU countries. Since the outset of the Greek Debt Crisis, the EU core countries aimed to maintain their own interests. This utility maximizer approach damaged the Greek economy and caused the crisis to spread. In other words, EU core states' interests have always had an effect on the EU's decision-making process, including its integration stages. Weak economic and political structures of the EU periphery led to great difficulties in adopting these decisions or regulations. The clearest example of this problem is the Maastricht criteria intended to provide fiscal discipline among member states. The EU expected its member states to observe these criteria, even though since 1993 the core wealthy states demonstrated that they themselves were often unable to observe them. This factor behind the European Sovereign Debt Crisis is examined in the third chapter, detailing both economic and political assumptions.

The final chapter focuses on the application of the realist theory of international relations to state behavior during the Greek Debt Crisis. The first two sections sketch a rough outline of the Greek economy since 1974. Contrary to common belief, the roots of the Greek Debt Crisis originated in turbulent 1970s. Inadequate economic conditions, unsuccessful reforms, unsteady political outlook, and imprudent consumption are some of distinctive characteristics of the Greek economy. Despite this gloomy picture, Greece has made some efforts to recover and to adopt conditions of the European Community.

The following section analyses the Greek Debt Crisis from the perspective of international cooperation. To portray the global economic outlook better, the 1970s ended the ascendency of the Keynesian global economic order and neoliberalism era has begun with the encouragement of financialization, opening borders, financial deregulation, privatization, and a general lack of state intervention. As a result, neoliberalism contributed to the contagion effect of the crisis. Worse yet, the neoliberal world order has changed the system, not state behavior. States, especially dominant economic powers, still seek to maximize their interests. They opt for short-term gains instead of the long-term gains that might result from cooperation. Moreover, reckless economic and political regulations of the EU, such as poor economies' adoption of the euro, caused the Greek economy to suffer structural weakness.

The final section questions the cost of staying in the Eurozone for Greece. The fundamental alteration following the neoliberal system is that unlike the liberal system, all costs of failure or crises are borne by the debtor or borrower countries. Bailout packages for Greece, in this sense, are most apparent indicators of this undertaking.

The Troika, the group made up of the European Central Bank, European Commission and the International Monetary Fund (IMF), agreed three bailout loan packages totaling more than €300 billion. Their usurious interest rates and tough conditions caused harm rather than benefits.

As a result, the study overviews state behavior during the Greek Debt Crisis. It argues that the EU required member states to adopt hasty economic and political regulations, starting with the Maastricht treaty. These policies and regulations were especially intended to maximize core states' interests. Moreover, they promise growth and austerity for core states, while bringing about huge public debt and budget deficits for the periphery.

CHAPTER ONE

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

1.1 THE CONCEPT OF COOPERATION IN INTERNATIONAL RELATIONS THEORIES

This section aims to clarify the concept of cooperation from the liberal and realist perspectives. These core theories of international relations, including their variants, such as structural realism and neoliberal institutionalism[4], have different approaches to the concept of cooperation. Each initially considers the possibility for cooperation between states, and then assigns different meanings to states, institutions, and individuals within the frame of cooperation.

1.1.1 Liberalism

Before defining the concept of cooperation, it is worthwhile to briefly highlight the basic assumptions of liberal international relations theory. These assumptions include liberal assertions about the main actors and their roles, the balance between the roles of states and civil society, and the impact of states' behavior on international conflict and cooperation.[5] According to Andrew Moravcsik, liberalism assumes that individuals and privately-formed interest groups are the principal actors in politics.[6] In this viewpoint, non-state actors play a crucial part in the decision-making and implementation mechanisms in international politics. The second assumption of liberalism is that "society is prior to the state."[7] Interactions between social actors also inevitably affect the decision making of states. The third core liberal assumption claims that "ceteris paribus, convergent state preferences beget interstate cooperation;

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[4] According to David Harvey, neoliberalism is "a theory of political economic practices". Its ultimate aim is to increase the wealth of people. Private property rights, free markets and free trade are crucial tools for releasing of individual entrepreneurial freedoms and skills. The role of state here is just to create and regulate. States must avoid further intervention.
David Harvey, **A Brief History of Neoliberalism,** Oxford University Press, New York, 2005, p. 2.
[5] Andrew Moravcsik, "Liberalism and International Relations Theory", **Center for International Affairs Working Paper Series** 92-6 (Harvard University, 1992/rev. 1993), pp. 6-10.
[6] Moravcsik, "Liberalism and International Relations Theory", p. 6.
[7] Moravcsik, "Liberalism and International Relations Theory", p. 9.

divergent state preferences generate interstate conflict."[8] In addition to these core assumptions, the distinctive characteristic of liberal theory is a concentration on domestic preferences formation process,[9] which constitutes the main assumption of liberal intergovernmentalism theory, as discussed in the following sections.

The liberal view argues that cooperation has a vital and constructive role in relations among states and thereby reduces the risk for international conflicts and encourage economic development among states. According to Joseph M. Grieco, the liberal approach to cooperation went through three successful phases. These phases are the "functionalist integration theory in the 1940s and early 1950s, neofunctionalist regional integration theory in the 1950s and 1960s, and interdependence theory in the 1970s."[10] Functionalist and neofunctionalist theories aimed to encourage states' common economic and political needs and sought to boost levels of cooperation.[11] Conversely, interdependence theory has attracted increasing attention to the increasing influence of non-state actors on the formation of international politics. However, these old variants of liberal institutionalism were interrupted by the catastrophic events of the 1970s, such as global oil crises and conflicts. The newest liberal institutionalism have gained momentum since the early 1980s, drawing special attention to the concept of cooperation.[12]

The term cooperation is often used interchangeably with coordination, harmony, and similar practices in international relations. Robert Keohane, one of the leading scholars on neoliberal institutionalism, stated that "cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination."[13] More precisely, cooperation takes place when a group of states follow the same or different policies that might help them reach their goals through a policy coordination.[14] Keohane's definition of cooperation does not

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[8] Moravcsik, "Liberalism and International Relations Theory", pp. 10-11.
[9] Moravcsik, "Liberalism and International Relations Theory", p. 11.
[10] Joseph M. Grieco, "Anarchy and the limits of cooperation: a realist critique of the newest liberal institutionalism" **International Organization**, Vol. 42, No. 3, 1988, p. 486.
[11] Fatma Aslı Kelkitli, **Post-Cold War Turkish-Russian Relations: The Limits of Competition and Cooperation in Eurasia**, Boğaziçi University, İstanbul, 2012, pp. 33-34.
[12] Grieco, p. 486.
[13] Robert Keohane, **After Hegemony: Cooperation and Discord in the World Political Economy**, Princeton University Press, New Jersey, 1984, p. 51.
[14] Keohane, After Hegemony, pp. 51-52.

mean that states that cooperate aim to directly help each other.[15] Instead, states in cooperation strive to restrict the destructive consequences of their policies on other states[16] in order to mitigate the effects of international anarchy.

The essential difference between neoliberal institutionalism and other old variants of liberal theory is that neoliberal institutionalism accepts certain core realist assumptions. First, both theories concur that neoliberals do not deny that states are crucial actors in international relations.[17] They seek to maximize their interests. The second assumption is that the absence of a common authority and the anarchic structure of international system constitute an impediment to international cooperation.[18] On the one hand, realists argue that anarchy acutely limits the international cooperation by discouraging states.[19] On the other hand, neoliberal institutionalists assert that states nevertheless overcome the anarchic structure of the system and cooperate largely through the efforts of international institutions.[20]

Meanwhile, there is also a crucial difference between neoliberal theory and realist theories. Neoliberals emphasize economic interdependence among countries.[21] Moreover, interdependence has had a major impact on the orchestration of world politics and the formation of state-policies. Interdependence here is defined as "situations characterized by the reciprocal effects among countries or among actors in different countries."[22] More precisely, reciprocal interactions among actors create a body of connections and relations in international system that is deprived of hierarchy. Interdependence may take the form of security, financial or trade relationships, as in the relations between the US and China.

Interdependence primarily refers to mutual dependence between states instead of perpetual mutual benefit.[23] More specifically, it does not imply that all parties gain

[15] Barış Çağlar, **Changing Alliance and Cooperation Dynamics: Globalization, Nation-State and the Threat**, Bilkent University, Ankara, 2010, p. 97.
[16] Çağlar, pp. 95-96.
[17] Kelkitli, p. 35.
[18] Grieco, p. 486.
[19] Grieco, p. 486.
[20] Grieco, p. 486.
[21] Interdependence is significant for the essence of this study. Interdependent relations between Greece and Germany, for example, can help grasp the significance of the German approach to the Greek Debt Crisis, including bailout packages and strict economic, social and political recipes.
[22] Robert O. Keohane and Joseph S. Nye, **Power and Interdependence,** Fourth Edition, Pearson Education, New York, 2011, p. 7.
[23] Keohane and Nye, **Power and Interdependence,** Preface to the Fourth Edition.

equally at the same time. States are dependent on each other at different levels, such that one may lose while the other wins. In addition, "where there are reciprocal costly effects of transactions, there is interdependence."[24] In other words, reciprocal cost is a distinguishing feature of interdependence. However, it is nearly impossible to reach an equal share of cost and benefit between the parties. Thus, one party is always more dependent on its partner notwithstanding difficulties to calculate the effects of interdependence, which include a number of interactions between transnational actors.[25] This condition refers to asymmetries in dependence.

In addition to the potential disparity of level of dependence between parties, a less dependent actor may tend to benefit from interdependence for its own interests, since any variation in interdependence relation will be more costly to its partner than to that actor.[26] This point is the root of relative and absolute gain debates that take place between liberal and realist theories of international relations.

The effects of interdependence in world politics due to each state pursuing its own interests may be explained through two additional terms used in the field, namely sensitivity and vulnerability. On the one hand, "sensitivity involves degrees of responsiveness within a policy framework."[27] European Sovereign Debt Crisis of 2012, for example, did not have the same effect on Turkey's and Iran's economic relations with the EU. The EU is Turkey's leading trading partner.[28] However, Iran's leading trading partners are Japan, China, and India. Only a smaller proportion of its trade has been with the EU. Thus, Iran has remained less sensitive than Turkey to variations in volume of trade and prices within the EU.

On the other hand, "the vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that various actors face."[29] In trading, for instance, two countries that trade the same product and volume with the EU may appear equally to be sensitive to negative effects of the European debt crisis and increases in prices. Yet, if one party developed a new way to produce that imported

[24] Keohane and Nye, **Power and Interdependence,** p. 8.
[25] Keohane and Nye, **Power and Interdependence,** p. 8.
[26] Keohane and Nye, **Power and Interdependence,** p. 10.
[27] Keohane and Nye, **Power and Interdependence,** p. 10.
[28] Almost half of Turkey's export has gone to the EU. Europa, "Trade", http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/, (19.10.2016).
[29] Keohane and Nye, **Power and Interdependence,** p. 11.

product and another could not gain such an alternative, the latter state might be more vulnerable than the former one.

Interdependence relations frequently take place within a framework of rules and norms.[30] With the rising number of non-state actors such as multinational and transnational corporations, international institutions have begun to play a great role within this context. Furthermore, the increasing influence of international institutions on politics among states since 1980s has led many scholars to conduct detailed researches to analyze them. For Keohane, “institutions create the capability for states to cooperate in mutually beneficial ways by reducing the costs of making and enforcing agreements.”[31] Moreover, the study of international institutions is significant to understand international cooperation.[32]

This study requires clarification of the scope of the term “institution”. In addition to the EU and IMF, Keohane appends international regimes, such as international trade regime, as institutions to the scope of the term, while Hedley Bull mentions to "the balance of power, international law, the diplomatic mechanism, the managerial system of the great powers, and war" as "the institutions of international society."[33] Furthermore, international institutions can emerge in two different ways. They may “be incorporated into interstate agreements or treaties”, or “evolve from proposed formal agreements that were never implemented.”[34]

Regardless of their capabilities, a growing number of countries have had increasing faith in the constructive role of international institutions on peace and prosperity. International institutions vary considerably in their effectiveness and objective. In addition to highly effective international institutions formed in the aftermath of the Second World War, such as the North Atlantic Treaty Organization (NATO) and the United Nations (UN), efforts to pacify aggressor European countries have caused three separate communities to emerge in Europe. Thus, institutions ease the difficulty of calculations of costs and benefits arising from state interactions. Furthermore, neoliberals have stated that international institutions can decrease the

[30] Keohane and Nye, **Power and Interdependence,** p. 16.
[31] Robert O. Keohane, "International Institutions: Can Interdependence Work?" **Foreign Policy**, No. 110, 1998, p. 86.
[32] Keohane, "International Institutions: Two Approaches", p. 379.
[33] Hedley Bull, **the Anarchical Society**, Columbia University Press, New York, 1977, p. 74.
[34] Keohane and Nye, **Power and Interdependence,** p. 17.

possibility of cheating, which they consider to be the most serious obstacle to cooperation, by binding states with common rules and regulations. This broadened framework of rules and regulations form the basis of international regimes.

1.1.2 Realism

Realist theories of international relations remain skeptical of long-term international cooperation. This tendency results from the core realist assumptions of anarchy and human nature. On the one hand, classical realism attaches great importance to anarchy, power, and human nature, and holding that state is the main actor in international relations. Statesmen, who conduct their policies follow power-oriented policies that stem from the nature of human beings, follow egoism and self-interest. Realism assumes that statesmen always seek to increase state power and develop and protect state interests. For many classical realists, such as Thucydides, Machiavelli, and Morgenthau, "the nature of international politics is an unending struggle for survival and power."[35] The key concept here is interest defined in terms of power. For Morgenthau, the concept of interest in terms of power offers an opportunity to understand the steps of statesmen and thus international politics.[36] Moreover, classical realists do not deny that the absence of an effective central authority brings about a problem of order, as states are always in competition in such an environment. The difference between classical realists and neorealist thinkers about anarchy is the neorealist assumption of an existing dichotomy between domestic and international politics.[37]

The realist paradigm holds that in an international system under the absence of a common authority each state is obliged to provide its own security. Furthermore, "international anarchy fosters competition and conflict among states and inhibits their willingness to cooperate even when they share common interests."[38] Thus, many realist thinkers have embraced a negative outlook towards international cooperation from the outset. E. H. Carr, a realist thinker during the interwar period, expounds that

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[35] Hans J. Morgenthau, **Scientific Man vs. Power Politics,** Purnell and Sons, London, 1947, p. 43.
[36] Hans J. Morgenthau, **Politics Among Nations: The Struggle for Power and Peace,** McGraw Hill, Seventh Edition, the USA, 1993, pp. 3-6.
[37] Richard Ned Lebow, "Classical Realism", **International Relations Theories, Discipline and Diversity,** (Eds. Tim Dunne, et. al), Oxford Press, Oxford, Third Edition, 2013, p. 61.
[38] Grieco, p. 485.

power is a key factor of international politics and interactions among states as a part of selfish nature of states.[39] Moreover, he argues that liberal economic practices, such as free trade, are acceptable when "the maximum economic interest of each nation was identified with the maximum economic interest of the whole world."[40] Another realist thinker, Hans Morgenthau, argues that only developed countries voluntarily make cooperative behavior possible among themselves through the balance of power mechanism.[41]

On the other hand, neorealists, such as Kenneth Waltz, focus on the structure of the international system and the distribution of capabilities among states.[42] The anarchic structure of international system restricts them from acting freely.[43] Waltz accused classical realists of being reductionist, as they tend to simply examine state behavior or character.[44] Instead, Waltz proposed three levels of analysis to explore world politics. According to him, analyses at the individual, state and system levels can deduce the more reasonable conclusions. Waltz made a distinction between domestic and international politics. The ordering principles of these structures, according to him, are different. As he stated, "domestic systems are centralized and hierarchic, international systems are decentralized and anarchic."[45]

Similar to the realist thinkers, neorealists do not deny the possibility of international cooperation. Yet, they argue that each state sees another's loss as its own gain, making international politics a zero-sum game.[46] Neorealist thinkers especially stress the importance of relative gains issue, cheating and the anarchic structure of international system as the chief factors working against international cooperation. John Mearsheimer, for instance, underlines the two major impediments to cooperation. The first impediment is the relative gain consideration. States are not directly concerned with maximizing their own gains. Instead, they initially covet to gain more

[39] Pier Domenico Tortola, "The Twenty Years' Crisis by Edward H. Carr", Review of the Twenty Years' Crisis of 1919-1939: An Introduction to the Study of International Relations, by E. H. Carr, **Crossroads,** Vol. 5, No. 1, pp. 78-81.
[40] E. H. Carr, p. 45.
[41] Kelkitli, p. 30.
[42] Kenneth Waltz, **Theory of International Politics,** Addison-Wesley Publishing, the United States of America, 1979, p. 99.
[43] Kenneth Waltz, "Realist Thought and Neorealist Theory", **Journal of International Affairs,** Vol. 44, No. 1, p. 29.
[44] Kenneth Waltz, **Theory of International Politics,** p. 60.
[45] Kenneth Waltz, **Theory of International Politics,** p. 88.
[46] Kenneth Waltz, **Theory of International Politics,** p. 70.

than the profits of others.[47] The second impediment is cheating, which may stem from the pursuit of relative gain concerns.[48] More precisely, if a state anticipates any decrease in its relative power, it may abandon a cooperative attempt or violate the interparty agreement.

Kenneth Waltz, similarly emphasizes relative gains as a serious obstacle to cooperation. He argued that concerns about the division of mutual gains among states engender an insecure environment and states "are compelled to ask not 'Will both of us gain?" but 'Who will gain more?"[49] However, as mentioned earlier, neorealists also presume a potential for cooperation under some conditions. Stephen Krasner argues that only situations in which alternatives provide no further benefits to all parties may present the potential for cooperation.[50] Kenneth Waltz, likewise, has pointed out a more systemic explanation, and expressed that "when on occasion some of the great powers did move toward cooperation, they did so in order to oppose other powers more strongly."[51] The foundations of the EU, for example, were laid during the Cold War, when the system was composed of two superpowers, the Soviet Union and the United States.[52]

1.1.3 Liberal Intergovernmentalism

In addition to realist and liberal approaches toward cooperation, Andrew Moravcsik sought to develop a new theoretical framework known as liberal intergovernmentalism (LI) [53] for comprehensive analysis. He formulated his theory on the basis of international political economy, interdependence, and 'neo' variants of realist and liberal theories. Moravcsik aims to explain European integration process by investigating domestic and international politics separately. As he puts it, "decisions

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[47] John J. Mearsheimer, "The False Promise of International Institutions", **International Security,** Vol. 19, No. 3, 1995, p. 12.
[48] John J. Mearsheimer, "The False Promise of International Institutions", p. 13.
[49] Kenneth Waltz, **Theory of International Politics,** p. 105.
[50] Stephen D. Krasner, "Global Communication and National Power: Life on the Pareto Frontier", **World Politics,** Vol. 43, No. 3, 1991, pp. 341-342.
[51] Kenneth Waltz, **Theory of International Politics,** p. 70.
[52] Kenneth Waltz, **Theory of International Politics,** p. 70.
[53] Moravcsik and Schimmelfennig point out that the objective of liberal intergovernmentalism theory is 'to modernize integration theory'.
Andrew Moravcsik and Frank Schimmelfennig, "Liberal Intergovernmentalism", **European Integration Theory,** (Eds. Antje Wiener and Thomas Diez), Oxford University Press, Oxford, 2009, p. 67.

to cooperate internationally can be explained in a three-stage framework: states first define preferences, then bargain to substantive agreements, and finally create institutions to secure those outcomes in the face of future uncertainty."[54]

The first stage is the formation of national preferences, based on the liberal theory and the fundamental goals of states formed as a part of domestic politics.[55] Formation by domestic politics is a distinguishing attribute of liberal intergovernmentalism from classical intergovernmentalism. According to classical intergovernmentalism, states' perception of their positions within the system is decisive in the formation of states' interests.[56] Liberal intergovernmentalism holds that state preferences, including foreign policy goals, are not immutable, instead varying "among states and within the same state across time and issues."[57] This statement signals the issue-specific character of LI, which diversifies state preferences. The momentum behind the European integration in the aftermath of the Second World War, for example, originated in economic interests of national governments.[58]

After national interests form, they are subject to bargaining through an intergovernmental channel. As Moravcsik and Schimmelfennig argue, "states must overcome collectively suboptimal outcomes and achieve coordination or cooperation for mutual benefit, yet at the same time they must decide how the mutual gains of cooperation are distributed among the states."[59] This statement involves two vital problematics. The first problem is that parties do not gain the best alternatives for them and need to confine themselves to the mutual benefit. The second problem concerns the distribution of mutual gain. Thus, an actor, who has relatively high bargaining power, is likely to shape the consequences of international negotiations in its own favour.[60] Asymmetrical distribution of benefits arising from agreements and information about preferences stands out within the context of bargaining power.[61] The

[54] Moravcsik and Schimmelfennig, pp. 68-69.
[55] Seçil Öraz, "Andrew Moravcsik ve Liberal Hükümetlerarası Sistem ile Avrupa Bütünleşmesi", **Turkish Studies**, Vol. 6, No. 1, 2011, p. 1617.
[56] Ben Rosamond, **Theories of European Integration,** Palgrave, New York, 2000, pp. 136-137.
[57] Moravcsik and Schimmelfennig, p. 69.
[58] Moravcsik and Schimmelfennig, p. 70.
[59] Moravcsik and Schimmelfennig, p. 71.
[60] Moravcsik and Schimmelfennig, p. 71.
[61] Öraz, p. 1618.

actor least in need of an agreement, or has more and better information, is more likely to exploit an agreement or to threaten other parties with a breach.[62]

The final stage is institutional choice subsequent to international bargaining process. LI adheres to neoliberal institutionalist assumption that states are likely to cooperate for their mutual benefit when international institutions provide the necessary conditions, including a reduction in transaction cost.[63] To this end, EU members, for example, make certain arrangements to reach efficient bargaining and a decrease of uncertainty,[64] and then they mainly authorize the EU for their decision-making process.

Having outlined the major assumptions of realist and liberal theories, including their variants, it is now possible to analyze state behavior during economic crises from the perspectives of these theories. Such liberal assumptions fail to explain the state behavior during the economic crises in Europe. They argue that convergent state preferences encourage the international cooperation and do not deny that even these preferences are motivated by states' interests.[65] States, however, do not always pursue their cooperative motives and they may ignore the effects of a decrease in their relative power in the short-run for further gains. In the long-run or during a catastrophic period such as an economic crisis, states are rarely cooperative and thus become likely to violate the agreements. Worse, they may seem to cooperate, but other parties of cooperation experience a perpetual loss.

Liberals assert that effective institutions play a crucial role in solving market failures that resulted from the failure of free markets to distribute resources efficiently.[66] As the following sections argue, the free market may also engender the inequality between national economies within a cooperation due to least two reasons. The first reason for inequality is different levels of capacities between actors. The second reason is a lack of political and economic mechanisms to absorb such differences. Especially in times of economic crisis, weak states experience difficulty

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[62] Moravcsik and Schimmelfennig, p. 71.
[63] Robert O. Keohane, **Power and Governance in a Partially Globalized World,** Routledge, London, 2002, p. 30.
[64] Giandomenico Majone, "The rise of the regulatory state in Europe", **West European Politics,** Vol. 17, No. 3, 1994, p. 77.
[65] Moravcsik, "Liberalism and International Relations Theory", pp. 6-11.
[66] Stephen D. Krasner, "International Political Economy: Abiding Discord", **Review of International Political Economy,** Vol. 1, No. 1, 1994, p. 14.

overcoming the conditions of competition that stem from free markets. Worse yet, weak states may even not experience absolute gains within the period of this cooperation.

Liberals do not deny that the anarchic structure of international system restricts cooperation, but hold states may overcome this impediment mainly through the endeavors of international institutions. Many realists, however, have directed criticism at the role of international institutions for at least two main reasons. First, a gradual increase in the volume of interdependence since 1980s has not been met with a concurrent increase in the capacity of international institutions, such as the IMF and World Bank, especially for developing countries.[67] Second, initially it was advanced, rich countries that laid the foundations of these institutions. Developed, rich countries with an immense economic power play a significant role in shaping the global governance, and this power, usually indirectly, affects the policies of international institutions in favor of rich countries.[68] In addition, a similar handicap is these institutions' codes that are in tendency to serve the interests of rich countries and to ignore the poor ones.[69]

In addition to the contractionary impact of interdependence on the capacity of international institutions, the realist paradigm emphasizes the asymmetries in interdependence between countries. States which are less dependent are more likely to orchestrate their own interests. In times of crisis, dependency relations lead to situations in which considerable costs are borne by more dependent actors. Liberals argue that states might have absolute gains at the end, but the Greek crisis of today has illustrated that the loss of more dependent actor has gained a perpetual character.

The first two stages of liberal intergovernmentalism theory, namely the formation of national preferences and international bargaining process, may offer broader insight into the Greek Debt Crisis and member states' responses. First, theory assumes that member states' domestic policies, shaped by individual preferences, produce national preferences.[70] Accusatory public opinion toward Greece in the EU's core countries has shaped core states' interests. This formation of domestic preferences

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[67] Helen V. Milner, "Globalization, Development, and International Institutions: Normative and Positive Perspectives", **Perspectives on Politics,** Vol. 3, No. 4, 2005, p. 841.
[68] Milner, p. 842.
[69] Milner, p. 843.
[70] Moravcsik and Schimmelfennig, pp. 69-71.

constitutes one of the reasons why core states follow self-centered state policies during the Greek Debt Crisis.

All states' interests are negotiated though the intergovernmentalist way under the influence of the EU's core states. Economic interest, relative power and credible commitment are crucial to understand the links between formation of national interests and bargaining process,[71] because they may profoundly affect the consequences of bargaining process. Moreover, a balance between the demands resulting from national interests and the supplies, i.e. potential gains, rising from bargaining should be provided for the harmony of cooperation.[72] The most important component of this balance is distribution of power, as proposed by Waltz.[73] Indeed, these substantive variables determine the bargaining power of countries. Countries with strong bargaining power are more likely to dominate negotiation process. EU core countries, for example, may impose their self-interested policies, including austerity measures, on debtor countries.

Another independent variable within the bargaining process is the vulnerability aspect of interdependence. A country less vulnerable to an event may remain unreactive. During the Greek Debt Crisis, for example, smaller and Eastern members of the EU have not actively participated in bailout proposals.

The third stage of LI theory, which is institutional choice is ill-suited to interpretation of state behavior during the economic crises. LI theory draws parallels with neoliberal definition of international institution. According to neoliberals, international institutions create the opportunities for further cooperation by reducing transaction cost and making states' interests more calculable.[74] (Un)cooperative efforts and harsh measures of international institutions in times of the Greek Debt Crisis, however, deepened the crisis and deteriorated the national economies of debtor countries as discussed in third chapter. LI theory, therefore, fall outside for the remainder of this study.

This study rests on the realist perspective that considers the nature of international relations as competition and struggle for power. The study argues that

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[71] Andrew Moravcsik, **The Choice for Europe: Social Purpose and State Power from Messina to Maastricht,** UCL Press, London, 1998, p. 4.
[72] Rosamond, p. 132.
[73] Öraz, p. 1618.
[74] Robert O. Keohane, **Power and Governance in a Partially Globalized World**, p. 30.

efforts to mitigate the effects of the Greek Debt Crisis are far from cooperative. The EU core states focused to increase their relative gains during the crisis. Although the EU core states seem cooperative, the gap between the debtor and core countries has increased, as the third chapter analyzes in depth.

International relations theories have proposed several assumptions towards cooperation as mentioned above. Despite their divergent approaches, the history of international relations has witnessed many cooperation efforts. Examples of successful cooperation have justified the liberal perspective of cooperation, while realists attracted notice to failed attempts and the inadequate functionality of cooperation. Moreover, discussions have raged about whether cooperation can take place or not. Realists, for example, have criticized unfair distribution of gains even within successful cooperation. All these different approaches eventually may be the causes of significant structural differences between states as well as big changes in international relations.

The EU has been expected to become one of the most successful cooperative attempts since its inception. It is therefore possible to remark that the EU is a great opportunity to examine assumptions of international relations theories towards cooperation. The chief argument of this study is that cooperation, especially in times of economic crises, does not always engender an environment in which all states experience gains and are enthusiastic about maintaining cooperation. Economic crises push states that cooperate to make hard decisions, and these decisions may not be good for others.

It would be misleading to consider the deepening economic crises of twentieth-first century in Europe as solely consequences of uncooperative states' behavior. Development leading to today's economic distresses began with the first steps of the European Community. Unlike liberal assumptions, integration efforts have come short of inclusive institutions that are expected to absorb the economic and political differences of members and reduce the costs. Furthermore, certain impetuous decisions and regulations of the Community, such as accession of inadequate candidates and the momentum of certain reforms, have heralded structural defects. The remainder of this section is dedicated to clarify the process of formation of the European Union.

1.2 AN INHERENTLY UNCOOPERATIVE UNION: THE EUROPEAN UNION

Attempts to gather formerly fighting countries under the same roof gained momentum after the Second World War. Policymakers and European thinkers began to discuss the idea that the political and economic integration is needed for peace. To this end, the EU was designed as one of the most important cooperation attempts. Today, the 'enlarged' European Union has the ability to shape world politics and economy. Therefore, responses that they will give toward the current European Sovereign Debt Crisis of 2012 subsequent to the Greek Debt Crisis[75] would be instrumental not only for their more than three quarter-century legacy but also for the globe.

The first section provides a brief history of the EU since the establishment of the European Coal and Steel Community (ECSC). It covers the EU institutions and establishing treaties which have played a remarkable role in shaping decision-making mechanism of the Union today. The second section includes the enlargement processes with changing dynamics, such as the shift from a Keynesian economic system to a neoliberal world order since the 1980s. Enlargements took place despite the Union's structural and institutional shortcomings in order to serve EU core countries' interests. This second pillar will bolster the theoretical framework that liberals do not deny this intention in the short run. However, today's economic crises have illustrated that this ongoing relationship is based on self-interest. The study will take this discussion a step further, arguing that the 'enlarged' EU under neoliberal policies constitute a leading cause of the debt crises of the twentieth-first century in Europe. The third part of this chapter discusses how the stages of European Economic Integration may stimulate economic distress, despite the ultimate objective of assuring closer economic relations between member states.

[75] The Greek Debt Crisis constitutes the main discussion topic of this study. This section, however, uses the Greek Debt Crisis of 2008/9 and the European Sovereign Debt Crisis of 2012 interchangeably.

1.2.1 A Brief History of the European Union

1.2.1.1 The European Union through the Years

Europe dreamed of a peaceful environment after the experiences of Nazi Germany. The notions, such as rebuilding Europe and promotion of cooperation and security, arose with the foundation of three separate communities, the European Coal and Steel Community, European Atomic Energy Community (EURATOM) and European Economic Community (EEC), with a distinct legal base for each framework in 1950s. The pacification of the two great powers, France and Germany, and control of the two strategic resources of war industry at that time, formed a basis of foundation of the ECSC among six countries[76] in 1952. The ECSC established a 'High Authority' as a main institution that had a supra-national power. Since economic integration is a prerequisite for political integration, in 1957 EURATOM and EEC were established, with the primary goals of a Customs Union and free movements of goods, services, peoples, and capital.

Treaties and regulations since 1957 have aimed to deepen integration. One of these efforts was the Merger Treaty that collected the executive bodies of these three communities under the umbrella of the European Communities in 1965.[77] In 1987, Single European Act (SEA) whose main objective was to establish Single Market, entered into force. The creation of the EU, the timetable and development of the Economic and Monetary Union (EMU), and the implementation of a 'pillar' structure[78] are some outcomes of the Treaty of Maastricht, which entered into force in 1993. The Amsterdam Treaty entered into force in 1999 in order to establish a European citizenship, Schengen Treaty and consolidate EMU and single currency. These

[76] These are France, Germany, Italy, and the Benelux countries.
[77] Europa, “The history of the European Union”, https://europa.eu/european-union/about-eu/history/1960-1969/1967_en. (27.02.2016).
[78] The following section emphasizes the differences between supranational and intergovernmental institutions caused the political fragmentation in the EU. To grasp these differences better, it is useful to briefly mention the three pillars. European Communities as only supranational structure was the first pillar. The second pillar was Common Foreign and Security Policy (CFSP) that replaced the SEA and enable Member State to take joint action in the context of foreign policy and third one was Justice and Home Affairs (JHA) whose main objective was to guarantee European citizens protection of freedom, security and justice. Europa, "Treaty of Maastricht on European Union", http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:xy0026, (27.02.2016).

developments play a crucial role in understanding the reasons of Eurozone crisis, because numerous scholars have agreed that policy-makers have ignored many factors behind the crisis for further integration.

1.2.1.2 Enlargement Processes

The Community originally had six members when founded in 1957: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The first enlargement took place in 1973 with the accession of the UK, Denmark, and Ireland.[79] The second enlargement in 1981 included Greece. The third enlargement happened in 1986 with Spain and Portugal. The fourth was in 1995 in which Austria, Sweden, and Finland became members. The fifth enlargement took place in 2004 with the accession of Central and Eastern European and Mediterranean countries, namely Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. On 1 January 2007, the European Union welcomed Romania and Bulgaria as new members and in July 2013, Croatia became a member. In addition, today Turkey, Albania, Montenegro, Serbia and Macedonia are on the road to EU membership.

This section consists of two parts. The first part aims to clarify the factors behind the enlargement processes and the changing dynamics in post accessions. It posits that these enlargements occurred despite candidates' economic deficiencies or political contradictions, and that these EU policies show parallelisms with their today's integration efforts. These efforts, too, occurred despite the similar problems and the EU has been experiencing the most severe crisis in its history. The second part of this section discusses two negative scenarios about the future enlargements. These two scenarios resulted from irresponsibility of member countries and provide great insight into the links between the enlargement processes and economic distresses in the EU in the twentieth-first century.

[79] Europa, "Neighbourhood", http://ec.europa.eu/enlargement/policy/from-6-to-28-members/index_en.htm, (28.02.2016).

1.2.1.2.1 Changing Dynamics with the Accessions

The pre- and post-accession processes have engendered discussion. These discussions have derived from the huge differences in political and economic structures of member states and candidates. They may cause serious organizational problems that are difficult to solve and set the stage for economic distress. The most critical instance was the UK's membership. Reasons for the belated membership of the UK included egoist intention of member states such as the efforts of French President de Gaulle to prevent this membership. Another striking example occurred with the enlargement to the South.

Despite being a great power, the UK was not a founding member of the European community since they believed that the community would fail in their attempts.[80] However, the UK realized that the participants of the European Free Trade Association mostly traded among the European Community, and thus felt obliged to become a member in order to benefit from market advantages. After the accession of the UK, French President de Gaulle showed resistance against this membership for two reasons. The first reason was the UK's special relationship with the US, as de Gaulle dreamed of a community, consisting of sovereign states independent of American influence.[81] Another reason was de Gaulle's determination to stem potential rivals from taking on French domination in the EU. With this in mind, De Gaulle also felt ill-disposed to a probable allocation in France's economic gains within the Community.

The accession of Greece, Spain and Portugal is generally referred to as enlargement to the South. The average economic size of these three countries is much lower than the average of the community. Moreover, some issues, such as their agriculture and fishing potential, further complicated their membership as they were not favorable circumstances, especially for Italy and France.[82] Although high levels of the social, political, and economic differences of these countries pose a threat to homogeneity of the community, they were welcomed for strategic reasons, such as

[80] İsa Bucak Gonca, "The First Enlargement of European Communities", https://www.academia.edu/525017/, (28.02.2016).
[81] "Phase 1", http://www.dadalos-europe.org/int/grundkurs5neu/phase_1.htm, (28.02.2016).
[82] Emek Ahu Yelken, **Impact of EU Enlargement on Economic and Social Cohesion,** Department of International Relations, Bilkent University, Ankara, 2007, p. 17.

political stability and economic development in Europe's Mediterranean region. These examples show that debates on EU enlargements have been gathered around how member states maximize their own interests, rather than consolidating the cooperation.

1.2.1.2.2 Two Negative Scenarios concerning Enlargements

Apart from the changing balances in the European community, the study describes two negative scenarios for the EU's future enlargements. These scenarios support the realist paradigm that emphasizes the importance of self-centered state approach in the EU decision-making. The first scenario is that candidate countries with political and economic deficiencies expressed a great appetite before the accession, but after accession, they demonstrated irresponsibility about adopting the prerequisites. The second approach derives from that the EU's willingness towards new members during 2004 and 2007 enlargements, despite the incomplete structural and institutional regulations in the Community, and obdurate stance of the core countries of the EU towards new labor forces from new members.

The first negative scenario is that the collapse of communism in Central and Eastern Europe in 1990s increased the number of countries striving for membership despite similar economic and political inadequacies. While some the recent studies have portrayed that becoming a member reduces the sense of responsibility in newcomer countries,[83] low or negative economic growth rates as a result of the Eurozone crisis in the EU countries still continue. Future enlargements have therefore become a highly controversial topic, especially after the debt crises.

The second negative scenario substantially derives from unwillingness of EU's core states towards new accessions, concomitantly heavy burdens. The EU's main objective in the beginning of the 2000s was to establish a large European market encompassing all related states.[84] After the eastern enlargements in 2004 and 2007, however, only Ireland, the UK, and Sweden abolished all restrictions on workers from

[83] Judy Dempsey, "The EU's Flawed Eastern Enlargement", 02.05.2014, http://carnegieeurope.eu/strategiceurope/?fa=55492, (29.02.2016).
[84] "How enlargement to the East progressed", http://www.dadalos-europe.org/int/grundkurs5neu/Chronologie.htm, (29.02.2016).

new member countries.[85] The driving forces of the EU, namely Germany and France, did not welcome new workers, especially unskilled labor, only allow them on a sector-by-sector basis.[86] Moreover, EU financial assistance to new members soared to 0.3% of the gross domestic product (GDP) of current members in 2013.[87] Monetary and fiscal policies have been far from being inclusionary all economies of member countries, and the EU's control mechanisms have not properly worked for countries that had fragile economies before the Eurozone crisis.[88] These stances are important to grasp the dynamics under which the EU enlargements occurred.

1.2.1.3 Stages of the European Economic Integration

Stages of the European Economic Integration (EEI) have played a prominent role in understanding of the Greek Debt Crisis and 2012 Eurozone crisis, as they have been shaping economies of the Member States since the very beginning. More specifically, states are obliged to integrate their national economies into the EU framework without question. They experience some constraints, such as trade restrictions with outsiders and/or austerity policies, to become a part of the customs union and common currency. Furthermore, when they fail to integrate their economy into the system, states are likely to witness the deterioration of their own economies, such as stagnation or a dramatic decrease in economic growth. As this study argues in third chapter in depth, the neoliberal wave in the global economy and politics has taken liberal discipline, such as the abolishment of trade borders and articulation of national economies, and revolutionized responses to economic crises. This section, however, only aims to discuss possible links between stages of EEI and economic distresses.

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[85] Cathryn Costello, "The UK, EU Citizenship and Free Movement of Persons", 01.05.2014, http://migrationobservatory.ox.ac.uk/policy-primers/uk-eu-citizenship-and-free-movement-persons, (08.04.2016).
[86] John O'Brennan, "The success of the eastern EU enlargement debunks current fears", 19.01.2013, http://www.theguardian.com/commentisfree/2013/jan/19/success-eastern-eu-enlargement-debunks-fears, (29.02.2016).
[87] Olli Rehn, **"Good to know about EU Enlargement**", European Commission Publication, Brussels, March 2014, p. 8.
[88] Barış Hasan, "Yunanistan Krizinin Türkiye-Yunanistan ve Türkiye-AB İlişkilerine Etkileri", http://www.batitrakya.org/yazar/baris-hasan/yunanistan-krizinin-turkiye-yunanistan-ve-turkiye-ab-iliskilerine-etkileri.html, (25.02.2016).

There are five stages of the EEI. These are Free-Trade Area (FTA), Customs Union (CU), Common Market (CM), Economic Union and Political Union. Free trade areas come into being when a group of states abolish all tariffs and quota barriers among members, to wit, a kind of open border in economics. Free trade agreements among members cover not only manufactured goods and commodities, but also services.[89] The main purpose of free trade agreements is to provide the economic expansion of its member states and offer them comparative advantages that promote efficiency. However, such a policy may result in large trade surpluses and deficits among countries. These trade imbalances and current account deficits are leading factors of economic crises.[90]

A Customs Union includes common tariffs and quotas, in addition to internal free trade, for outsiders.[91] Members conduct trade negotiations and sign treaties as a whole, instead of separate commercial policies and signing trade agreements.[92] The negative impact of the EU Customs Union on the Eurozone crisis was made apparent when states brought the prices of agricultural and industrial products into line with those of the Community, trading with other members at a premium due to the restrictions for outsiders. The fact that every state has a different production capacity and means for each production area is a serious threat to countries with relatively low competitiveness.

The third stage of EEI is the common market. According to Article 2 of 1957 Treaty of Rome:

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[89] Daniel Hannan, "The EU is not a free trade area but a customs union: until we understand the difference, the debate about our membership is meaningless", 23.10.2012, http://blogs.telegraph.co.uk/news/danielhannan/100186074/, (27.02.2016).
[90] Myriam Vander Stichele, "The impact of trade on the financial crisis and vice versa", **The Centre for Research on Multinational Corporations (SOMO),** 20.10.2010, p.1.
These huge differences create radical changes. China, for instance, has loosened over 7.000 tariffs, quotas and other trade barriers and nearly quintupled its exports after its WTO membership in 2001. Economist, "China's economy and the WTO: All change", 10.12.2011, http://www.economist.com/node/21541448, (04.04.2016).
Similarly, as Stichele points out the negative impact of free trade on economic meltdowns, "the US never thought that its bullying stance in favour of free trade at the WTO and in FTAs would bring it in a position of a considerable trade deficit without means to intervene." Stichele, p. 1.
[91] To comprehend the difference between FTA and CU, we assume that the US as a member of NAFTA, is a FTA, is allowed to enjoy free trade with the EU. However, Germany as a member of the EU under the CU could not enjoy free trade with the outsiders as much as they like. This condition may compel some states in the EU to make higher-priced imports from other members of the EU, instead of lower-priced imports from outsiders.
[92] Hannan.

by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.[93]

In addition to attempts to merge national economies and economic policies, the formation of a common market in the EU also requires a community without internal frontiers in which free movement of labor, capital and services is ensured.[94] This prerogative can lead the migration of skilled labor from periphery countries like Greece and Poland to core countries that offer wider opportunities, such as the UK and Germany. As a result, the periphery experiences a loss of supply and productivity and suffers from fragile and weak economies. Vítor Constâncio, Vice-President of the European Central Bank, has asserted that free movement of capital has played a role in the outbreak of the Eurozone crisis by exacerbating the fragility of the banking sector and increasing financial instability.[95]

An economic union is the last stage of an economic integration in advance of a political union. In this stage, Member States coordinate their economic and monetary policies, removing all tariffs under a single market. A further step of an economic union is monetary unification under a common currency.

On January 1, 1999, the euro was created as a new currency of eleven European countries.[96] Today, 19 countries use the euro.[97] Not all EU Member States have adopted the euro, although some maintain the necessary criteria to be able to adopt it. Denmark and the UK have 'opt-out' clauses while the remainder, particularly newly entered countries, are unable to meet conditions for adopting the euro.[98] Economic

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[93] It was signed among France, Germany, Italy and the Benelux countries.
The Treaty of Rome, 25.03.1957, Part One - Article 2, p.4.

[94] Europedia, "The EU common market", http://www.europedia.moussis.eu/books/Book_2/3/6/index.tkl?all, (05.04.2016).

[95] Vítor Constâncio, speech delivered at the Bank of Greece conference on "The crisis in the euro area", 23.05.2013, https://www.ecb.europa.eu/press/key/date/2013/html/sp130523_1.en.html, (14.04.2016).

[96] These countries are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

[97] Europa, "The euro" http://ec.europa.eu/economy_finance/euro/index_en.htm, (28.02.2016).

[98] Europa, "The euro", (28.02.2016).

criteria determined by 'convergence criteria'[99] aim to converge economic structures. In addition to these economic adjustments, a member state in the euro area is supposed to make necessary arrangements for national laws and rules, especially in terms of governance of its national central bank and other monetary issues.[100] The following parts of this study will examine the detrimental impact of varying levels of economic development and competitiveness of countries during the outbreak of the Eurozone crisis.

Finally, the most advanced form of integration is a political union with a common government, which marks a decrease of the sovereignty of member states. However, the EU is a kind of post-modern political form, not a United States of Europe with a central federal government. Despite a constitution, a single currency, and related institutions, the EU remains an international organization in many ways, as states make many decisions at the nation-state level. For example, while some national leaders are willing to assist debtor countries with bailouts or to negotiate the future of the immigrants, other leaders are adamantly opposed.

The rest of the study is organized as follows. In order to analyze the Greek Debt Crisis and Eurozone crisis from a broader perspectives and bring a political understanding to the literature of economic crises, Chapter 2 aims to illuminate the political economy of three global economic crises, namely the Great Depression of 1929, the Global Financial Crisis of 2008, and the European Sovereign Debt Crisis of 2012. Chapter 3 examines German pushes for further integration and neoliberal policies as the leading factors behind the Greek Debt Crisis, and concomitantly the European Sovereign Debt Crisis. Chapter 3 also analyzes the Greek Debt Crisis from a realist international relations perspective, regarding international organizations and the EU core as utility maximizers.

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[99] These criteria include regulations of macroeconomic indicators. Price stability, sustainability of public finances, exchange-rate stability and control of long-term interest rates are major ones of these conditions. The following chapter will analyze these conditions in more detail.

[100] Europa, “The euro” (28.02.2016).

CHAPTER TWO

A BRIEF HISTORY OF GLOBAL ECONOMIC CRISES SINCE 20^TH^ CENTURY

Global economic crises are often a result of the lack of international cooperation. One factor behind relationship between these two variables is that history, that great teacher, remains unheeded. Similar factors[101] underlie the 1929 Great Depression, and the 2008 Global Financial Crisis, such as the misleading preferences of the citizens and financial actors, and the parallel pursuit of a new global political and economic order. Due to the recurrent nature of global crises, better understanding of their underlying dynamics is needed.

Scholars often approach global economic crises solely from an economic perspective, concentrating on details like macroeconomic indicators or monetary and fiscal policies to explain their causes and effects. However, this approach fails to capture all aspects of such crises, the implications of which go beyond individuals and borders. As a result, understanding the leading factors of global economic crises requires a closer look at political and social bases. Such a study can also offer opportunities to draw more detailed inferences about global economic crises and world politics in general.

Therefore, global economic crises are a dependent variable and lack of international cooperation is an independent variable of the study, as discussed in the following chapter. This chapter mainly explores the role of the chief political factors and consequences of global economic crises since the Great Depression. To understand the factors of today's economic crises it is useful to take a look at the Great Depression as a trigger of these processes. This will form a basis for the framework of the recent economic distress in Europe. Thus, this chapter first examines the causes and effects of The Great Depression of 1929, the Global Financial Crisis of 2008, and European Sovereign Debt Crisis of 2012. As Kirshner points out, "the lessons of the Great

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[101] The First World War (WWI) particularly interrupted cooperation among states and engendered a fragmentation of national economies. Such a significant development cannot be abstracted from the discussions on the Great Depression. It, however, carried a distinctive characteristic from the similar causes of global economic crises of twentieth and twentieth-first century.

Depression provided a ground for a financial order (Bretton Wood system of 1948-1973) after Second World War."[102] However, this order collapsed during the OPEC oil crisis in the early 1970s. A market fundamentalist approach[103] with a rapid financial deregulation overtook after the fall of Bretton Wood and lasted up until 2007 when the global economic meltdown began.

2.1 GLOBAL ECONOMIC CRISES

The word 'crisis' derives from the Greek word *krisis,* meaning judgment.[104] For economists, crises usually come into being after a period of sluggish economic performance, decrease in overall wealth and production and interrupted economic growth in a country.[105] Financial crises, such as debt, monetary, and banking crises, are some common examples. They may have global, regional, and even local dimensions by rapidly spreading across borders. They therefore require immediate and broad policy responses.[106] In times of crisis, great transformations in social, political, and economic structures may occur.[107] Furthermore, global economic crises can act like turning points because apart from causing the economic destruction of many states, they may also present rare opportunities. Andre Wilkens, for example, asserts that during the 2012 European Sovereign Debt Crisis, the decline of Western political leadership and credibility, such as the absence or decrease in economic and political domination of great powers, crisis management and working together of rest of the world can serve as a model for solid democracies and developing countries.[108] However, their negative impact on different levels[109] is more observable.

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[102] Jonathan Kirshner, **American Power after the Financial Crisis,** Cornell University Press, New York, 2014, p. 4.

[103] Market fundamentalism is a belief that unregulated markets somehow produce the best results. "What is Market Fundamentalism?", http://www.greattransformations.org/what-is-market-fundamentalism, (25.04.2016).

[104] Neşe Çapraz, **Ekonomik Bunalımların Dünya'da ve Türkiye'de Yansımaları**, Der Yayınları, İstanbul, 2001, p. 5.

[105] Economics of Crisis, http://www.economicsofcrisis.com/indications.html, (16.01.2017).

[106] Stijn Claessens and M. Ayhan Kose, "Financial Crises: Explanations, Types, and Implications", **IMF Working Paper,** 2013, p. 3.

[107] Çağlar Hakyemez, "Küresel Ekonomik Krizlerin Dış Politikaya Etkileri ve 1929 Büyük Buhran Örneğinde İncelenmesi", www.academia.edu/5582121, (12.02.2016), p. 2.

[108] See other assumptions: Andre Wilkens, "The Global Financial Crisis: opportunities for change", 10.11.2008, https://www.opendemocracy.net/article/the-global-financial-crisis-opportunities-for-change, (14.02.2016).

[109] The noticeable socio-economic consequences of economic crises are already well covered in the literature. Robert Zoellick, the President of the World Bank from 2007 to 2012, for instance, argued in

Global economic meltdowns have detrimental effects on almost all aspects of life. They have been gathering momentum with the help of technology, the right to move freely, and economic and commercial relations beyond national borders. Consequently, global economic crises have an impact on diverse and sometimes indirectly-related issues ranging from mental health to tourism. These diverse outcomes warrant an eclectic approach to studying the leading influences and effects of global economic crises.

In addition to their implications on global scale, there is substantive initiatives on the part of policymakers to understand the underlying factors and consequences of global economic crises.[110] In fact, policymakers take various measures to control or reverse the effects of economic crises. However, oftentimes these measures fail. The European Economic Recovery Plan in 2008, for instance, has aimed to curb the slow-down of national economies, stimulate demand, and increase the control of state authorities over financial institutions and banks of member states.[111] Notwithstanding these efforts, the 2008 Global Financial Crisis and, concomitantly, the 2012 Eurozone crisis have brought out some of the weaknesses of the existing studies and strategies.

A closer look at the world history suggests that global economic crises usually stem from the economic and political decisions of great economic powers such as the US and the EU. Three great economic crises, the 1929 Great Depression, the 2008 Global Financial Crisis and the 2012 Eurozone Crisis, have taken place in those grounds. Today, attempts of aforementioned countries to maintain their interests in global scale through exporting their economic policies, are inseparable parts of the global economic crises – particularly concerning causes of crises-.[112]

Finally, to understand the impact of global economic crises better, it is worthwhile to state that they may result in radical changes on global political order.

2009 that a 1 percent decline in economic growth would be followed by an additional 20 million people to poverty in developing countries, and a total of 65 million additional people may have already fallen below the 2 US$ a day poverty line.
Robert Zoellick, Speech delivered at the G-20 summit, Pittsburgh, PA, 02.04.2009.

[110] Jonathan Kirshner, "The Global Financial Crisis: A Turning Point", Forbes, 08.11.2014, http://www.forbes.com/sites/jonathankirshner/2014/11/08/the-global-financial-crisis-a-turning-point/#26d25624c2ff, (13.02.2016).

[111] Carles Viver Pi-Sunyer, "Impact of the Global Economic Crisis on the Political Decentralisation in Spain", https://www.cairn.info/revue-l-europe-en-formation-2010-4-page-61.htm#no15, (17.03.2016).

[112] For more detail on the subject, see John K. Glenn, "Implementing Smart Power Amid Economic Crisis", Friedrich-Ebert-Stiftung Washington, 2011.

Jonathan Kirshner, for example, called the mid-1990s the second post-war American order "characterized by the US embrace of financial globalization as the touchstone of its post-Cold War grand strategy."[113] For Kirshner, American financial liberalization project dominated the early 1990s by encouraging states to liberalize and to open their domestic markets.[114] However, the 1997 Asian banking crisis delegitimized the order, then the 2008 Global Financial Crisis has decreased the US' relative economic power and undermined 'second post-war American order' concurrently by damaging the second post-war American order.[115] Similarly profound political outcomes for the European project of a half-century are apparent in the wake of the Greek Debt Crisis and the subsequent European Sovereign Debt Crisis. Discussions among distressed states on leaving the Eurozone or even the Union have become more serious with the referendum ended with the UK leaving EU membership.

2.1.1 The Great Depression Era (1919-1945)

2.1.1.1 A Concise Outline of the Great Depression

As the chain of events that occurred in the aftermath of WWI illustrate, approaching a global crisis such as the Great Depression from a solely economic perspective may fall short of clarifying its diverse effects in other fields. Broader consequences have included the rise of nationalism in Germany and Austria in opposition to the liberal democracies in West European countries such as Britain, France, and Holland.[116]

Many economic and political factors lay behind the Great Depression. Its main driver was a lack of cooperation in the aftermath of WWI. The world witnessed widespread destruction. After it was over in 1918, all war-weary nations looked forward to attaining global peace and wealth. At the same time, however, states established war economies. War economy includes policies that aim to recover destruction, which resulted from war by protecting the home territory. These

[113] Kirshner, A Turning Point.
[114] Kirshner, American Power, pp. 6-7.
[115] Kirshner, American Power, pp. 6-10.
[116] Ekkart Zimmermann and Thomas Saalfeld, "Economic and Political Reactions to the World Economic Crisis of the 1930s in Six European Countries", **International Studies Quarterly**, Vol. 32, No. 3, 1988, p. 306.

protectionist measures increased total wealth and economic growth significantly during the early 1920s, leading to 'consumer society' in countries like the US, but also a huge credit bubble. With the explosion of this credit bubble and a high level of financial speculations, sudden shocks in the US stock market in 1929 played a key role in the ensuing Great Depression.

Protectionist policies then interrupted international cooperation. States had a tendency to preserve their interests and increase their security. This behavior of states worsened the economic and political global order. The dominant power of the term, namely the UK, was unable to tame this environment, and the Great Depression broke out.

The Great Depression, in return, led to major social and political developments, hastening the outbreak of the Second World War as discussed in further detail in following section. One of these unforeseen developments, for instance, was that during the hyperinflation in Germany of 1920s, the relative value of the country's currency dropped dramatically because of the debts that resulted from the financial punishment of the Versailles Treaty. Germany's dependence on foreign debt increased, making the German economy fragile. This socio economic breakdown was a key factor behind the rise of Adolf Hitler and outbreak of the Second World War.

While a detailed analysis of the Great Depression and its large-scale effects are out of the scope of this study, emphasizing some of its similarities with contemporary economic crises can help to understand its main arguments. As the next section emphasizes, political events, such as the outbreak of WWI and the rise of the United States as a global actor in the first quarter of the 20th century, illuminate the primary factors behind the Great Depression.

2.1.1.2 Factors behind the Great Depression (1919-1929)

The outbreak of Great Depression depended on a variety of factors. It initially broke out in the US through wide stock market fluctuations. However, political factors that principally resulted from WWI also played an important role with regard to its spread to Europe. WWI, the leading factor of the Great Depression, was an exceptional case in terms of causes of crises in the twenty-first century, notwithstanding similar political consequences. More specifically, European countries and the United States, who got involved in the war, experienced mass migration flows, labor loss, and heavy impositions imposed on defeated powers in the aftermath of WWI. Additionally, global economic stagnation resulted from war economies.

Economic crises often stem from the independent decisions of states, such as protective policies and fallacious economic regulations. In doing so, they act like a rational and self-interested actor. Moreover, if a state can manage its interests, cooperation might work better, but short-term gains of defection might be more. They, thus, replace long-term gains with short-term gains that result from the defection. This priority paves the way for the crises. The impact of WWI as a factor underlying this decision-making process is remarkable in this regard. WWI had at least three impacts on the outbreak of economic and political problems at that time as part of a global depression. The first impact was the collapse of some empires and concomitantly immense migration waves across borders. The second impact of WWI on the economic depression was increasing income inequality in national economies. It did not take long time to cause political instability. Finally, the capitalization of wages and working hours had a deep impact on the deterioration of national economies like the UK.

The first two impacts of WWI on the Great Depression were political. First, WWI led to the collapse of some empires[117] as new nations emerged. As a result, millions of innocent people in Europe were uprooted, and countries such as the United States received over 14.5 million immigrants between 1900 and 1920.[118] These factors, and the Bolshevik Revolution in Russia in 1917, created mass migration across borders. These waves of migration, accompanied by economic stagnation, changed the global labor market. In the same time period, many Western countries and the US had an inclination to adapt their policies to diminish labor migration and enacted quotas due to the risk of increasing unrestrained migration.[119] Thus, countries were unable to make vital structural reforms to draw down from a war economy.

[117] In 1918, Austro-Hungarian Empire collapsed and four new states, Austria, Hungary, Yugoslavia, and Czechoslovakia emerged. After the war, the Ottoman Empire also collapsed, which led to the birth of the Turkish Republic.

[118] "Mass Immigration and WWI", U.S. Citizenship and Immigration Services, 04.02.2016, https://www.uscis.gov/history-and-genealogy/our-history/agency-history/mass-immigration-and-wwi, (21.02.2016).

[119] Barry Chiswick and Timothy J. Hatton, "International Migration and the Integration of Labor Markets", **University of Chicago Press,** 2003, p. 73.

The second political effect of WWI was the expansion of income inequality among nations. Before mentioning unadjusted income distribution, another related factor, economic inequality among nations, contributed to political instability and "weak governments responded counterproductively to the crisis, with economic policies that often made things worse".[120] This inequality was more discernible between combatant and non-combatant nations of WWI. Countries such as Great Britain and Germany that were exposed to war destruction, suffered both politically and financially.[121] Countries such as the US and Japan who did not directly experience war within their borders, enjoyed an opportunity to develop themselves economically. In addition to economic inequality among nations, however, the leading factor of explosion of national economies, even for the US, was a dramatic increase in income inequality. Income inequality contributed to increase of household consumption and decrease of their savings.[122] As a result, changes in functional distributional income worsened the Great Depression.[123]

Finally, monetary regulations and capitalization of labor market constitute the economic impact of WWI on the Great Depression. European countries endeavored to increase their money supply during the war and abandoned the gold standard. This preference caused to devalue their currency and also inflation. During this period, the unemployment rate soared above 10% in Great Britain.[124] Average levels of wealth decreased and income inequality increased in Europe. The economies of European countries became unstable and heavily indebted. Furthermore, the labor market and trade unions capitalized on wages adjustment and working hours in aftermath of WWI.[125] This was "followed by a severe deflation between 1920 and 1922 in the US and UK, which saw the GDP deflators fall by nearly 25 percent in both countries."[126]

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[120] Peter N. Stearns, et al. **World Civilizations: The Global Experience,** 6th Edition, Pearson, 2007, p. 145.
[121] İbrahim Bakırtaş and Ali Tekinşen, "Dünya Savaşları ve Büyük Buhran Arasındaki Etkileşimin Ekonomi Politiği", **Selçuk University the Journal of Institute of Social Sciences,** Vol. 12, No. 5, 2004, pp. 86-87.
[122] Christian A. Belabed, "Income Distribution and the Great Depression", **Macroeconomic Policy Institute (IMK),** Working Paper, 2015.
[123] Mark Schmitz and Price V. Fishback, "The Distribution of Income in the Great Depression: Preliminary State Estimates", **The Journal of Economic History,** Vol. 43, No. 1, 1983, p. 218.
[124] Tejvan Pettinger, "UK Economy in the 1920s", 16.10.2012, http://www.economicshelp.org/blog/5948/economics/uk-economy-in-the-1920s/, (22.02.2016).
[125] Bakırtaş and Tekinşen, p. 86.
[126] Timothy J Hatton and Mark Thomas, "Labour Markets in the Interwar Period and Economic Recovery in the UK and the USA", **Oxford Review of Economic Policy,** Vol. 26, No. 3, 2010, p. 4.

Moreover, wage rates also fell nearly by 36 percent.[127] This was a period of depression, deflation, and decline for most countries, especially the previous world hegemon Great Britain.[128]

Despite the aforementioned negative conditions, the Great Depression caught many people by surprise. The reason behind this contingency is that the West experienced transitory and superficial improvement in their economy since 1920. The early years of 1920s got off to a good start for Western Europe, Canada and especially the US, as the focus was on restoring their social and economic structure. Up until 1929, this period was known as the ‘roaring twenties.’ A positive economic growth accompanied gains in important political rights, and the invention of new electric machines that made life easier.[129] Businesses and manufacturing industries expanded and a great number of production and consumption emerged.[130] However, their stock prices also escalated in tandem with these developments, posing a risk for the US economy.[131] In order to illustrate dimensions of these developments with statistics, it is appropriate to use Dow Jones Industrial Average (DJIA). Movements in stock markets are determined with the help of the DJIA.[132] The Dow Jones was at 181 points in the first half of the 1928 and it soared to 381 points in September 1929.[133] As a result, on 21 October, 1929, foreign investors began to quickly sell out their stocks, followed by the American public. In three days, the DJIA lost 83 points and in 24 October, 1929, the New York Stock Exchange nose-dived.[134] The collapse of the New York’s stock market had a huge impact on global economic and political order, which is the focus of the following section.

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[127] Neil Manning and Nicholas Woodward, “Sliding Scales and Wage Flexibility in 1920s Britain”, **Bulletin of Economic Research,** Vol. 51, No. 4, 1999, p. 319.
[128] Pettinger.
[129] Eds. Allison McNeill, Richard C. Hanes, and Sharon M. Hanes, 2013, "Causes of the Great Depression." Great Depression and the New Deal Reference Library, (22.02.2016).
[130] McNeill and Hanes.
[131] McNeill and Hanes.
[132] The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The DJIA was invented by Charles Dow back in 1896. Read more: Dow Jones Industrial Average (DJIA) Definition | Investopedia http://www.investopedia.com/terms/d/djia.asp, (22.02.2016).
[133] “Causes of the Great Depression”, http://thegreatdepressioncauses.com/causes/, (22.02.2016).
[134] “Market Timing”, http://www.sniper.at/stock-market-crash-1929.htm, (22.02.2016).

2.1.1.3 Effects of the Great Depression (1929-1945)

The factors that led to the Second World War also have significant ties with the political effects of the Great Depression. The indirect effects escalated international tension and aggression among countries. The most severe consequences of the Great Depression include a fall in international trade volume, temporary relinquishment of free trade, and government and regime reshuffles. More precisely, the US turned its focus to domestic issues, radical right-wings parties came into power in Japan, Italy, and Germany, and a search for a new global economic order began.

Initially, countries often put the trade-restricting measures after economic crises. The US, for instance, put these type of measures into effect after the collapse of more than 40% of American banks by 1933.[135] The most significant measure was the Smoot-Hawley Tariff Act enacted in June, 1930. This act lifted U.S. tariffs dramatically.[136] The main purpose of the act was to protect domestic agricultural production from imports.[137] This caused great internal migration flows within the US, especially among local farmers. In order to protect national economies from the uncertainty and negative flows in the world economy, European countries similarly showed protectionist reactions to the ongoing economic stagnation, which worsened the recession.[138] World trade thus declined by some 66% between 1929 and 1934.[139]

Second, many major countries abandoned policies like free-trade that shaped their political and economic identity immediately following the Great Depression. Free trade had been a basic part of the British economic identity since 1820. Similar to the US and the UK, the Netherlands[140] also broke from a policy of free trade[141] after the Great Depression. Another country that altered its foreign trade policy was Germany.

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[135] "Effects of the Great Depression", http://thegreatdepressioncauses.com/effects/, (23.02.2016).
[136] Martin Kelly, "All About the Smoot-Hawley Tariff of 1930", http://americanhistory.about.com/od/greatdepression/f/smoot_hawley.htm, (12.12.2016).
[137] Kelly.
[138] "International Trade after the Economic Crisis: Challenges and New Opportunities", **United Nations Publication**, 2010, p. 29.
[139] "Smoot-Hawley Tariff", http://future.state.gov/when/timeline/1921_timeline/smoot_tariff.html, (23.02.2016).
[140] Barry Elchengreen and Douglas A. Irwin, "The Slide to Protectionism in the Great Depression: Who Succum bed and Why?" **The Journal of Economic History**, Vol. 70, No. 4, 2010, p.877.
[141] Kevin Hjortshøj O'Rourke, "Government policies and the collapse in trade during the Great Depression", 27.11.2009, http://www.voxeu.org/article/government-policies-and-collapse-trade-during-great-depression, (23.02.2016).

During the early 1930s, Germany unexpectedly began to establish 'equalizing' tariffs on goods coming from countries whose currency had depreciated.[142]

These tit-for-tat protectionist economic policies produced remarkable political consequences after the Great Depression. These consequences were fundamentally the rise of the right-wing movements and of international political disagreements. Left wing parties lost power in countries like Australia and the UK, while nationalistic and hawkish parties came into power in Germany and Japan.[143] The liberal New Deal policy of Roosevelt administration in the US, increasing influence of fascist Hitler's party in Germany, and Marxist leader Stalin's ruling in the Soviet Unions were canaries in the coal mine for a destructive political order.

Finally, in addition to political and ideological outcomes in major world economies such as the US and the UK, the Great Depression triggered anti-imperialist movements in many colonies[144] because they failed to react to the increasing prices and the protectionist markets. A variety of inputs, including agricultural raw materials, cheapened for manufacturing industries in colonies like India.[145] They too were compelled to follow import-substitution policies.[146] In this regard, the imperial order and its assumptions were no longer tenable.[147]

These variations in world politics share similarities with the consequences of today's economic crises and political scenes of countries during the interwar years and exemplify the significant effects of economic crises on politics. Furthermore, these developments paved the way for the Second World War by eliminating opportunities for international cooperation and changing interests of countries, especially the declining world hegemon, Great Britain, which began to lose its colonies.

[142] Elchengreen and Irwin, p. 877.
[143] Bakırtaş and Tekinşen, p. 95.
[144] Bakırtaş and Tekinşen, p. 95.
[145] Tirthankar Roy, **India in the World Economy from Antiquity to the Present,** Cambridge University Press, the USA, 2012, p. 217.
[146] Bakırtaş and Tekinşen, p. 95.
[147] Roy, p. 220.

2.1.2 The 2008 Global Financial Crisis

Having summarized the leading factors and the consequences of the world wars on global economic crises and political changes, now it is possible to scrutinize the recent economic crises in some depth. The 2008 economic crisis that broke out in the US is widely regarded as the first global crisis of the 21th century. It spread rapidly across the globe, notably among the Western economies. It is possible to discuss the leading causes and effects of this crisis through political and economic perspectives. The fact that it occurred in such a short period of time signaled a great number of global problems, such as a lack of cooperation, insufficiency of international political and financial organizations and interconnected fragile economies. Apart from the factors behind the crisis, the global crisis also had many impact, such as leading to another large scale economic crisis, namely the Eurozone crisis.

2.1.2.1 The Causes of the 2008 Global Financial Crisis

There are many economic and political factors behind the 2008 Global Financial Crisis. It should absolutely note at the outset that this financial crisis was economically rooted, what makes the crisis globally is the lack of cooperation, including neoliberal economic and political world order. Neoliberalism since 1980s has brought radical changes to global economic system, but it has not altered state behavior. States remain self-interested actors, and the lack of a constitutive cooperation within all levels of states system continues to undermine weak countries, especially in times of economic distresses.

Before emphasizing the factors behind the Global Financial Crisis of 2008, it is worthwhile to note that this financial crisis unveiled the lack of cooperation in the EU. A cut of liquidity and a decrease in the volume of international trade due to the crisis in the US was enough for the European economies, notably the Greek economy, to go into a nosedive. To discover the global impact of the Global Financial Crisis of 2008 on the Greek Debt Crisis, both political and economic factors play an important role.

In terms of economic and financial aspects, many scholars believe that tighter liquidity revealed funding problems for the leading financial institutions in the US financial market and triggered the crisis in 2008.[148] The ability to create new channels of credit retarded the flow of money and economic growth there.[149] This policy, in return, decreased the money supply within the US and banks made loans at every turn and created new money.[150] During that period, 97% of all the money in the economy stood as bank deposits.[151] More precisely, simple credits created imaginary money in the system. People spent that money on paper by purchasing residence and assets, and making further investment. The fact that most people wished more money in return led to high inflation. Interest rates began to grow bigger than the income of some people, which made them unable to pay their debt. When banks were unable to get their money back, they found themselves in danger of going bankrupt.[152] In brief, as the former chairman of Financial Services Authority of the UK, Lord (Adair) Turner pointed out, “the financial crisis of 2007 to 2008 occurred because we failed to constrain the financial system’s creation of private credit and money.”[153]

Another cause of the crisis is the fact that two leading global economies, the US and China, are unable to build a political and economic consensus. The reason behind this lack of consensus is the changing balance between these two powers. It should be noted that the US still maintains its hegemonic role in world politics, while China’s challenge to American hegemony is increasing. Other Asian economies also experienced increased international competition. More specifically, China holds about 30 percent, Japan about 15 percent and South Korea about 3 percent of worldwide official foreign currency reserves, according to the IMF.[154] With this rapid rise of the Asian economies ‘strategic capitalism’[155] concept has gained prevalence in scholarly circles. China increased its savings rate from 38 percent in 2000 to 54 percent in 2006, causing depressed interest rates worldwide by increasing the price of bonds in the US

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148 “Potential Emerging Threats to U.S. Financial Stability”, Section 7, Financial Stability Oversight Council 2011 Annual Report, U.S. Department of the Treasury.
149 Ryan Guina, “The 2008-2009 Financial Crisis – Causes and Effects”, http://cashmoneylife.com/economic-financial-crisis-2008-causes/, (23.02.2016).
150 “Financial Crisis & Recessions”, https://positivemoney.org/issues/recessions-crisis/, (23.02.2016).
151 Michael McLeay, et al. “Money creation in the modern economy”, Bank of England, Quarterly Bulletin, 2014, p. 2.
152 “Financial Crisis & Recessions”
153 Lord Adair Turner, speaking as chair of the Financial Services Authority, 06.02.2013.
154 “Data Template on International Reserves and Foreign Currency Liquidity”, https://www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx, (28.03.2016).
155 See more information: Richard D'Aveni, **Strategic Capitalism: The New Economic Strategy for Winning the Capitalist Cold War,** McGraw-Hill Education, the US, 2012.

dramatically.[156] According to the D'Aveni, the US and Europe should have noticed the rise of China and its challenge to be rival in an 'economic cold war'.[157] Moreover, different approaches in international policies, such as exchange rate policy, between China and the US are a part of this circle.[158] As a result of this rise and prospect of a new capitalism era eastwards, excessive financialization, different exchanges rate and deterioration of balance between finance-real economies weakened the Western economies[159] and became some of the major causes of economic crises.

On the political side, the increasing inequalities among countries through international institutions and organizations such as IMF and Group of 20 (G20) played a crucial role in deteriorating the global economic system and adding a contagion effect to the crisis.[160] In G20, for instance, a dual structure became more clear today. Developed countries such as the US and Canada that advocate neoliberal policies tend to hinder prominence of developing countries like Brazil and China.[161] In addition, countries failing to implement necessary regulations proposed by the financial institutions like the IMF unintentionally bring effective operation of said organizations to a standstill.[162] As a result of this dispute, countries on both side in G20 avoid coming to a mutual understanding as one can see in the example of Financial Sector Assessment Program (FSAP).[163] The FSAP was administered jointly by the IMF and the World Bank, aiming "to improve the supervision of national economies' financial and banking systems and of capital markets and insurance companies."[164] The FSAP also increases the durability of the system during economic shocks.[165] The fact that the

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[156] Heleen Mees, "How China's Boom Caused the Financial Crisis", 17.01.2012, http://foreignpolicy.com/2012/01/17/how-chinas-boom-caused-the-financial-crisis/, (28.03.2016).

[157] "The Capitalist Cold War Has Begun", https://www.mhprofessional.com/product.php?isbn=0071781161, (23.02.2016).

[158] Ziya Öniş (eds.), et al. **Ülke Deneyimleri Işığında Küresel Kriz ve Yeni Ekonomik Düzen**, İletişim Press, İstanbul, 2013, p. 7.

[159] Öniş, p. 8.

[160] Evren Tok, "Küresel Yönetişim ve G-20'nin Siyasal Ekonomisi: 1999-2012", **Ülke Deneyimleri Işığında Küresel Kriz ve Yeni Ekonomik Düzen,** (Ed. Ziya Öniş, et al), İletişim Press, İstanbul, 2013, p. 20.

[161] Tok, p. 21.

[162] Edwin M. Truman, "The G-20 is failing", 12.09.2016, http://foreignpolicy.com/2012/04/12/the-g-20-is-failing/, (15.11.2016).

[163] John Whalley and Manmohan Agarwal, "China, the Developing Countries and the G20", 16.06.2010, https://www.cigionline.org/publications/china-developing-countries-and-g20, (12.12.2016).

[164] Whalley and Agarwal.

[165] Whalley and Agarwal.

US had not covered this assessment before the crisis constitutes an important justification of spreading of the 2008 Global Financial Crisis. Worse, inequality between G20 countries and the rest of the world is also increasing. The real agenda of G20 remains the promotion of economic stability and growth of G20 countries, instead of addressing poverty or the middle-income trap in underdeveloped countries. This tendency of international institutions and organizations in favor of rich countries complicates the solution of current crises by spreading them around the world and will likely pave the way for the new ones in the near future.

2.1.2.2 Effects of the 2008 Global Financial Crisis

The political and social consequences of the 2008 Global Financial Crisis particularly stand out. While not deeply covered in this study, the social impact of the Global Economic Crisis on policy-making process in the US, concomitantly across the globe, has been remarkable. Policymakers who fell short in taking preventive measures in the US, for instance, are expected to explain why the housing market holding the trillions of dollars of citizens assets collapsed while the profitability ratios of Wall Street banks early in 2013 soared beyond overall ratios in 2007.[166]

In the context of socio-political global implications, the 2008 crisis diminished the importance of social democratic policies in major countries, notably in the US[167] by interrupting the primary duties of states. As a result, an uptick in unemployment rates and the decrease in overall production and economic growth in developed countries has begun to threaten social welfare state concept. For instance, "5.5 million more American jobs were lost due to slower economic growth during the financial crisis."[168] Moreover, with the new period of austerity stemming from the global crisis,

[166] Fırat Demir, "Büyük İstikrar Döneminden Büyük Durgunluk Dönemine: Krizdeki Kapitalizm veya Kriz Kapitalizmi", **Ülke Deneyimleri Işığında Küresel Kriz ve Yeni Ekonomik Düzen** (ed. Ziya Öniş, et al.), İletişim Press, İstanbul, 2013, p. 120.
[167] Öniş, p. 8.
[168] "The Impact of the September 2008 Economic Collapse", 28.04.2010, http://www.pewtrusts.org/en/research-and-analysis/reports/2010/04/28/the-impact-of-the-september-2008-economic-collapse, (24.02.2016).

"…the capacity of national states to mediate between the rights of citizens and the requirements of capital accumulation has been severely affected."[169]

The Global Financial Crisis also had a negative impact on democratic values in the US when it attained a structural characteristic.[170] Furthermore, unlike advanced democracies, "the role of government in the US is smaller and more restricted,"[171] but Global Economic Crisis emphatically has reversed it.[172] For example, the Federal Reserve (FED), which is independent in theory, developed a policy package of nationalization and deep involvement in restructuring[173] with working extremely closely with the Bush Administration.[174] In addition to social and political effects of the global crisis, severe consequences such as strict border controls and exacerbated nationalistic rhetoric in the US and EU have emerged.

Another outcome of the crisis has been the weakening role of the US hegemony in the future of global economic order, and its possible implications on international cooperation. While not directly related to the global crisis, the following example is informative in this sense. Despite its dominance in the global economy, according to the IMF after the global crisis the US became the most indebted country, while Germany, Japan and China became the world's largest creditors.[175] Therefore, a great number of scholars argued that with the global crisis, there arose a perception of settled global order changed and discourses, such as non-polarity, post-American order and collapse of the American empire. Global political unrest derived from governance weaknesses of international mechanisms, and states pre- and post-crisis accelerated this discourse.

Furthermore, there is much debate over the US and its future role in the global economic and political system due to the being the origin of the global crisis and its hegemony. As discussed above, many scholars consider the 2008 Global Economic

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[169] Wolfgang Streeck, "The Crises of Democratic Capitalism", **New Left Review,** Vol. 71, 2011, p. 25.
[170] Öniş, p. 9.
[171] Graham K. Wilson, "The United States: The Strange Survival of (Neo) Liberalism", **The Consequences of Global Financial Crisis: The Rhetoric of Reform and Regulation,** (Ed. Wyn Grant and Graham K. Wilson), Oxford University Press, Oxford, 2012, p. 52.
[172] Wilson, p. 52.
[173] Wilson, p. 52.
[174] Andrew Ross Sorkin, **Too Big To Fail,** Penguin Group, New York, 2009, p.183.
[175] International Monetary Fund (IMF), Country Net International Investment Position (NIIP) statistics, 2010.

Crisis as the downfall of the US. However, others like Joseph S. Nye consider it too early to make inferences about the fall of the US from its global power position as Washington may absorb the losses rapidly.[176] The World Economic Forum, for instance, still indicates the US as the world's second most competitive country for many reasons, such as political stability, innovation, and higher education, while China's rank is 29.[177]

2.1.3 2012 European Sovereign Debt Crisis

Although the 2012 Eurozone crisis was considered solely as a debt crisis at the outset, it has also stimulated the existential crisis that the EU has experienced since its inception. It is possible to underline two dimensions to this crisis. On the one hand, it is misguided to refer the Eurozone crisis solely as a follow-up of the 2008 Global Economic Crisis, which revealed structural weaknesses of the EU, as discussed in following section, and may yet trigger the destruction in Europe. On the other hand, the Eurozone crisis has engendered many thorny political issues in the EU by affecting deeply all levels of actors. In addition, it has tarnished the efforts of member states to merge under the same political and economic roof and brought the lack of cooperation to light. Thus, the EU has been intensely criticized for its decisions in a variety of crucial topics including enlargement, money and fiscal policies and the imperfect structure of the Union in pre- and post-crisis periods.

2.1.3.1 Causes of the 2012 European Sovereign Debt Crisis

It is possible to approach factors behind the Eurozone crisis from two perspectives. On the economic side, the Maastricht Treaty of 1992 and the Stability and Growth Pact of 1997 brought some restrictions for the states to act independently to provide their financial stability. Limiting the annual public deficits to three percent of its country's GDP and public debt to 60 percent of GDP are some of these

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[176] Joseph S. Nye, "American and Chinese Power after the Financial Crisis", **the Washington Quarterly,** Vol. 33, no. 4, 2010, p. 144.

[177] World Economic Forum, ''The Global Competitiveness Report 2009-2010,''pp. 116, 292, 320, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2009-10.pdf. pp. 116, 320.

precautions.[178] However, interestingly, no country in the EU achieved all of those criteria between 2007 and 2014.[179] Some countries, such as Greece, Italy, Spain and Ireland, experienced dramatic increase in public deficits and government debts as mentioned in the following chapter in more detail. As a result, government debts increased almost by 50% in these countries between 2008 and 2012.[180]

The main political causes of the Eurozone crisis came from the paradox known as the 'Economic integration/political fragmentation'.[181] According to this paradox, the EU has met some objectives, such as achieving an economic and monetary union. However, it has been far from reaching a proper political union in which the nation-state has vanished. This section aims to explain this paradox in detail and discusses how political factors, such as enlargement policy, structural disharmony, and the increasing gap between core states and periphery states, may lead to economic crisis and deepen existing economic difficulties.

Greece as the birthplace of the 2012 Eurozone crisis, is an important example for the starting phase of political fragmentation. While this section argues the Greek Debt Crisis briefly, the following chapter will scrutinize this crisis in more detail. On the one hand, Greece has experienced fiscal problems, such as large budget deficits and public debts, since the early 2000s.[182] Furthermore, it failed to meet some of the criteria for adopting the euro. Greece's public debt, for example, was 109.1% of GDP when it entered the Eurozone in 2001 despite a breach of convergence criteria that limits public debt to 60% of GDP.[183] The Union allowed Greece to adopt the euro despite all these negative courses because "the integration of the European member states had made more territorially permeable politics and transformed the state

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178 Eurostat, "Government finance statistics", http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics, (25.02.2016).
179 Yücel Ergün and Serkan Cura, "Anayasal İktisat Yaklaşımı Açısından Avro Krizi", **Celal Bayar Üniversitesi Sosyal Bilimler Enstitüsü,** 2015, p.11.
180 Eurostat, "Evolution of government gross debt in the Eurozone", 2014, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1, (25.02.2016).
181 Ziya Öniş and Mustafa Kutlay, "Ekonomik Bütünleşme/Siyasal Parçalanmışlık Paradoksu: Avro Krizi ve Avrupa Birliği'nin Geleceği", **Journal of International Relations**, Vol. 9, No. 33, 2010, p. 3.
182 Georgia Kaplanoglou and Vassilis T. Rapanos, "The Greek Fiscal Crisis and the Role of Fiscal Governance", **Hellenic Observatory Papers on Greece and Southeast Europe,** No. 48, 2011, p. 5.
183 Economist, "A very European crisis", 04.02.2010, http://www.economist.com/node/15452594, (10.04.2016).

system."[184] Moreover, Greece is a Western country with a liberal society and market economy, and the EU has great desire to implement EU policies.[185]

On the other hand, the EU's control mechanisms did not perform well in Greece. As a result, EU subsidies, aids, and loans with a low interest rate were used unproductively.[186] Structural problems in the Greek economy and domestic political factors hindered the full implementation of these policies in Greece. This failure of the EU's control mechanisms converted Greek investments to non-performing loans on other markets, such as Bulgarian and Serbian banks.[187] Briefly stated, Greek citizens opted for sovereign wealth funds instead of production. This preference among citizens and producers led to Greece's weak industrial structure to acquire continuity. Furthermore, Greek politicians avoided making deep structural adjustments due to their political costs and existing stagnation. Thus, some crucial issues, including entrepreneurship, industry, and encouragement of competitiveness in production fell off the agenda of political elites.[188] These negative processes made the outbreak of crisis unavoidable.

However, the leading factor behind the political fragmentation in the EU has been the harmonization problem between supranationalist and intergovernmentalist institutions. On the one hand, regarding the EU's institutions, European Central Bank is the only authority to make decisions about monetary policy on behalf of states while states have continued to use their authority to make decisions on fiscal policies.[189] For example, the Eurozone's periphery, including Greece and Spain, were subjected to same monetary policy with the core countries, such as Germany and France due to the single monetary policy. This lack of harmony between supranationalism and nation-state levels in EU's decision making mechanism is one of the most serious causes of the Eurozone crisis. Furthermore, the lack of strong and efficient European supranational governance frustrates implementation of an inclusionary economic and political policies that might eliminate the risk for economic crisis.

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184 Henrik Larsen and Kim B. Olsen, "Europeanization of Greece", Europeanization of Department of Political Science, University of Copenhagen, 2010, p. 3.
185 Larsen and Olsen. pp. 8-9.
186 Hasan, (07.03.2016).
187 Hasan, (07.03.2016).
188 Hasan, (07.03.2016).
189 Öniş and Kutlay, p. 7.

On the other hand, structural disparity between rescue mechanisms such as central banks as nation-state level and IMF as a supranational level has aggravated the crisis. In addition, the fact that "none of these bodies have direct democratic legitimacy and their lack of democratic accountability that gives them freedom of action"[190] has hampered the decision-making process. For example, the European Central Bank determined its monetary policy target as fight inflation and as a result of this, periphery countries lack certain crucial factors, such as growth and productivity, that damages their economies.[191]

Another example of political fragmentation is the increasing gap between the core and periphery relations in the EU and it began widen further and worsened the crisis. This gap is more explicit in the account balance of Member states. Considering the 2014 account balance in the EU, Germany had a current account surplus by € 219.7 billion while the Euro area (Ea-18) excluding Germany had current account deficits of € 7.0 billion and the EU (27) excluding Germany had current account deficits of € 93.2 billion.[192]

While core countries, especially France and Germany, continue to rise economically, countries in debt have strived to survive in the euro area. Moreover, implicit policies of the core states contribute this dilemma to deepen. For example, a senior official, Paolo Baptista, one of the Executive Directors of International Monetary Fund, pointed out this scenario by stating that the bailout packages provided money to save financial creditors, such as German and French banks, not Greece.[193] Statistically, Greece owes the Eurozone 60% of total debt, as well as IMF (10%),

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[190] Economist, "The Democratic Deficit", 17.07.2015, http://www.economist.com/blogs/buttonwood/2015/07/euro-crisis-0, (11.04.2016).
[191] Öniş and Kutlay, p. 7.
[192] Eurostat, "Current account balance with the rest of the world", 2004–14 http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Current_account_balance_with_the_rest_of_the_world,_2004%E2%80%9314_(%C2%B9)_(EUR_billion)_YB15.png, (25.02.2016).
[193] Paolo Baptista, speech delivered on the Greek private Alpha TV, 04.03.2015, http://www.keeptalkinggreece.com/2015/03/04/imfs-director-batista-greek-bailout-was-to-save-german-french-banks-video/, (25.02.2016).
For more see also: Pratap Chatterjee, "EuroZone Profiteers: How German and French Banks Helped Bankrupt Greece", 30.06.2015, http://www.commondreams.org/views/2015/06/30/eurozone-profiteers-how-german-and-french-banks-helped-bankrupt-greece, (25.02.2016).

European Central Bank (6%), and foreign banks (1%).[194] These data indicate that Greece largely owes to banks and private creditors. Similarly, Greece mainly discharged its international loans with the first two bailouts, instead of allowing for economic growth or reforms[195] that would ameliorate the difficulties in the long-run. The fact that ultimate objective is more than saving Greece constitutes the main framework of the next chapter.

2.1.3.2 Effects of the 2012 European Sovereign Debt Crisis

The Eurozone crisis has had a negative impact on the EU's political and economic structure. Countries such as Ireland and Spain have begun to signal recovery, while Greece has approved bailouts and recovery packages. Notwithstanding their economic effects, these measures are unable to address the considerable negative political impact that the EU faces. In fact, discussions about the future of the euro give way to discussion about the future of the Union itself. The remainder of the study examines the political factors and consequences of the Eurozone crisis subsequent to the Greek Debt Crisis and describes self-interested German policies toward the Greek Debt Crisis.

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[194] Rick Kelsey, "Greek money crisis: Who does Greece owe money to?" 29.06.2015, http://www.bbc.co.uk/newsbeat/article/33311535/greek-money-crisis-who-does-greece-owe-money-to, (25.02.2016).

[195] New York Times, "Greece's Debt Crisis Explained", 09.11.2015, http://nyti.ms/1GVZokd, (11.04.2016).

CHAPTER THREE

COOPERATION IN THE EUROPEAN UNION DURING THE GREEK DEBT CRISIS OF 2009

The ongoing debate on the causes and effects of global and/ regional economic crises concentrate on the concept of cooperation. A significant factor behind this focal point is that rich, advanced states have borne few costs resulting from a decrease in their relative gains. These self-interested behaviors undermine cooperation and pave the way for economic distresses. On the one hand, core states, which are also creditors, aim to increase their profits even in times of crises. On the other hand, debtor states are being pressured to approve austerity measures that trigger the political, social, and economic upheavals. The Greek Debt Crisis offers a great opportunity to scrutinize this relation between state behavior and economic turbulence in this regard.

The Greek Debt Crisis that originated from EU states' misleading economic regulations and self-seeking political decisions has engendered serious discussions about the leaving the Eurozone, or even the Union.[196] In addition to discussions about the leaving from the Eurozone, political economic literature since the inception of the Greek Debt Crisis has seen a number of types of discourse, including recriminations. One sample statement concludes that "the story of the Greek crisis is often painted as either one of the reckless borrower gambling with other people's money, or the victim of an inflexible European project that squeezes its weaker members for the benefit of the stronger."[197] Advocates of both approaches may offer reasonable grounds. On the one hand, core states of the EU, notably Germany, have harshly criticized Greece's rash economic and political behavior. They argue that Greece misused the EU subsidies and privileges. In fact, these claims are not totally groundless. Low interest rates for Greece have indeed engendered significant amount of borrowing. Thanks to this privilege, government spending soared by 90% of GDP in 2009, and this was the highest rate even among almost all developed countries, such as the US, Japan and

[196] "Sweden tells Greece to quit eurozone", 13.10.2012, http://www.thecommentator.com/article/1803/sweden_tells_greece_to_quit_eurozone, (24.11.2016).
[197] "All of Greece's problems can be traced back to the 1970s", 22.03.2015, http://www.thejournal.ie/greece-problems-1970s-explainer-1994793-Mar2015/, (15.11.2016).

EU-27.[198] Furthermore, efforts to pursue a high level of welfare have not been met with the aggregate production in the country.

On the other hand, many scholars and policymakers, including Yanis Varoufakis, former finance minister of Greece, have argued that the major goal of the Troika is not to solve European debt crisis. According to them, Troika serves the interests of core countries of the EU, notably Germany and France. Bailout packages have been given to Greece, provided that the essential part of it needs to be used for debt retirement. As discussed in further detail later, in addition to conditions of packages, other self-seeking approaches which aggravated the situation in Greece, such as high interest rates, attribute the validity of these claims.

This chapter follows the second line of argument and claims that Germany's political pressure and Troika's financial constraints worsened the Greek Debt Crisis. To validate this argument, the Greek economy since the turbulent 1970s must be considered. The study then discusses the Greece's Eurozone membership notwithstanding inadequate conditions of Greece's economy, incorporating the so-called cooperation concept which has helped Germany disguise its realist motives during the Greek Debt Crisis.

3.1 THE GREEK ECONOMY AND THE OUTBREAK OF GREEK DEBT CRISIS OF 2009

Contrary to popular belief that the Greek Debt Crisis blew up immediately after the Global Financial Crisis of 2008, its starting point can be traced to two turning points: 1973 global oil crisis and the collapse of the subsequent military junta regime in Greece in 1974. The Greek economy later took a turn for the worse with the Greek membership of Eurozone and US-based Global Financial Crisis. Within this period, the Greek economy has experienced many difficulties, such as fluctuating GDP growth rates and long periods of recession.[199] These adverse events set the Greek powder keg on fire.

[198] Georgios P. Kouretas, "The Greek Debt Crisis: Origins and Implications", https://www.frbatlanta.org/-/media/Documents/news/conferences/2011/sovereign-debt/papers/Kouretas.pdf, (15.11.2016).
[199] Nicholas Leounakis and Plutarchos Sakellaris, "Greek Economic Growth since 1960", Working Paper Series, Athens University of Economics And Business, 16-2014, p. 3.

Greek scholar Ioannis N. Grigoriadis described the factors that led to the Greek Debt Crisis using three minor deities in Greek mythology: Hubris, Ate, and Nemesis. According to Grigoriadis, *hubris*, which also implies arrogance and deviation from virtue, was the Greek desire to maintain high living standards without sustainable economic growth or proliferation of productivity as of 1981.[200] Another metaphor is *ate*, which "refers to an act of folly" as a consequence of *hubris*.[201] Grigoriadis underlines the two major moments of *ate* in Greek case. The first act is that Greece employed ingenious financiers and made special deals with Wall Street firms like Goldman Sachs in order to disguise large current account deficits and the precipitous rise of public debt.[202] As a result, Greece appeared to be meeting the convergence criteria. The second act is Greece's hosting of the Olympic Games in 2004.[203] Lack of a comprehensive plan for constructed facilities in the aftermath of the games led to heavy costs for the delicate Greek economy.[204] Finally, in 2009, Greece's national debt soared beyond €262 billion from €168 billion in 2004.[205] In addition to a dramatic increase in public debt, worsening economic indicators such as the increase of the debt-to GDP ratio and current account deficits reflected the *nemesis*, which means "retribution of divine justice" according to Grigoriadis.

It would be misleading to state that the Greek experience was solely due to intransigence or imprudent policies. Greece has made some efforts to adopt necessary economic and political arrangements for further integration with the European community. However, the Greek appetite to for a higher living standards has deepened already existing economic and political fragility. Worse, they led to upheaval in the Greek society and later accelerated the collapse of the Greek economy.

Having outlined the Greek Debt Crisis in a nutshell, it is now possible to explain it in more detail. The next section covers the vital phases of the Greek economy since the inception of the crisis in 2009. The following section then analyzes the bailout packages from the political economy perspective. It mainly aims to unveil the

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[200] Ioannis N. Grigoriadis, "Greek Tradegy", **World Policy Journal,** Vol. 28, No. 2, 2011, p. 102.
[201] Grigoriadis, p. 102.
[202] Grigoriadis, p. 102.
[203] Grigoriadis, p. 102.
[204] Grigoriadis, p. 104.
[205] Timeline of a crisis: how Greece's tragedy unfolded", 16.06.2011, The Telegraph, http://www.telegraph.co.uk/finance/economics/8580720/Timeline-of-a-crisis-how-Greeces-tragedy-unfolded.html, (12.07.2016).

realist and uncooperative actions of EU’s core countries, especially Germany, during the crisis due to the decreasing credibility of Greece, which was seen as a future asset for the Union.

3.1.1 A Fragile Economy (1973 – 2001)

The deterioration of the Greek economy started in the early 1970s. Greece was unable to reform its economy after the collapse of the Greek military junta in 1974. In addition, the first global oil shock in 1973 ruined the Greek economy. Inflation rate, for instance, which had been under 5% since mid-1950s soared beyond 25% in 1974.[206] The Karamanlis administration, the newly formed democratic government after the junta, also failed to tame inflation.[207] In addition to these events, the second global oil shock in 1979-1981 resulted in government reshuffle in Greece and the populist left-wing Pan-Hellenic Socialist Movement (PASOK) party under the leadership of Andreas Papandreou came into power in 1981. The arrival of a new political party into power meant that the already weakening Greek economy further suffered in the government reshuffle.

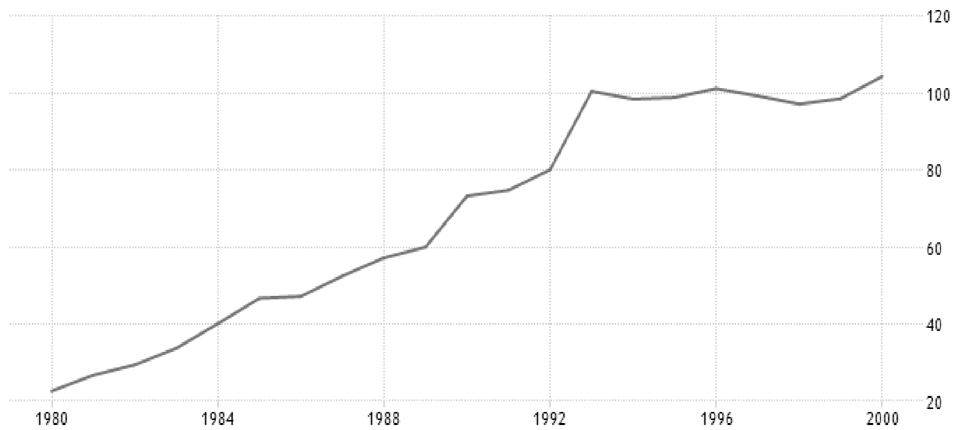
In addition to the above mentioned domestic politics and economic turmoil, before Papandreou administration, Greece unexpectedly became a part of European Community in the same year. A significant reason behind this involvement is that European community regarded Greece as a political and economic asset from the beginning due to the least three dynamics. These dynamics were Greece’s rich cultural heritage, geostrategic location, and reestablished democratic regime. Furthermore, the Community regarded this membership as an initial step of the plan toward the empowerment of integration.

After the ascension to the Community, Papandreou's excessive expenditure program aggravated the Greek economy further and led to an explosion of the already extensive budget deficit and an increase in overall public debt.[208] Moreover, a

[206] “All of Greece’s problems can be traced back to the 1970s”, (14.07.2016).
[207] “All of Greece’s problems can be traced back to the 1970s”, (14.07.2016).
[208] Akis Haralambopoulos, “Review of Greek Economy”, 12.03.1997, http://www.hri.org/forum/econ/greece97.html, (09.08.2016).

considerable amount of employment in public sector funded by the government debt resulted in a decrease in labor productivity.[209]

Figure 1: Greece's Government Debt to GDP between 1980-2000.



Source: Tradingeconomics, Eurostat, http://www.tradingeconomics.com/greece/government-debt-to-gdp, (26.11.2016).

3.1.2 Greece in the Eurozone (2001 – 2010)

The European Community sought to mitigate the impact of international anarchy and reduce the possibility of widespread economic shocks. They imposed strict restrictions and rules with the Maastricht Treaty signed in 1992 and required all member countries to participate in the Economic and Monetary Union. According to the Maastricht Treaty and EMU, a country's government debt as % of its GDP cannot exceed 60% and its consumer price inflation rate cannot exceed 1.5% the rate of the three best performing Member States.[210] The major goal of these rules is to guarantee that all member states have sustainable economies and to impose fiscal discipline on an institutional level.

[209] "All of Greece's problems can be traced back to the 1970s", (14.07.2016).

[210] Three best performing countries in terms of price stability were Switzerland, France and Great Britain. Their CPI average was almost 0.92.

"Overview of current CPI inflation by country / region", http://www.inflation.eu/inflation-rates/cpi-inflation-2001.aspx, (31.07.2016).

Greece, however, had an economic profile that was far from meeting these expectations. Greece adopted the euro in 2001 with an unstable economy in terms of the EU five convergence criteria. For instance, after the adoption of the euro, the Greek government debt to GDP ratio was 109.7%,[211] and its inflation rate was 5.17%.[212] The remainder of Greece's economic indicators, such as exchange rate stability and long-term interest rates, did not give promising signals either for both Greece and the Union. As the figures above suggest, this leniency illustrates that the EU member states condoned some policies for further political integration regardless of their potential destructive impact on all the Union.

In addition to the Greek failure to stabilize its economy, the EU suffers severe structural weaknesses, including an inability to control the actions of its members. Following the entry into the Eurozone, the Greek authorities, for example, admitted in 2004 that they fiddled with its current account deficits numbers, which have not been below 3% since 1999.[213] As they point out clearly, "…the recording method in use was at the origin of a possible severe under-estimation of government expenditure and therefore of the government deficit."[214] According to Katinka Barysch, former chief economist at the Centre for European Reform, such fallacious attempts are due to the political imperative to adopt the euro as soon as possible and European Union officials was not surprised at this statement.[215]

The passive reaction of the EU resulted from the fact that none of the EU members observed the Maastricht criteria all the time from the outset. Consequently, it is possible to state that Maastricht convergence criteria led to divergence and additional costs for the member states.[216] The reason of divergence is that Maastricht criteria are far from being enforceable economically. Only Finland and Luxembourg, for example, met the criterions for government debt to GDP all the time between 1998

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[211] OECD.Stat, https://stats.oecd.org/index.aspx?queryid=8089, (18.07.2016).
[212] "Inflation Greece 2010", http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-2010.aspx, (18.07.2016).
[213] "Timeline of a crisis: how Greece's tragedy unfolded", 16.06.2011.
[214] Europa, "Report by Eurostat on the Revision of the Greek Government Deficit and Debt Figures", 22.11.2016, http://ec.europa.eu/eurostat/documents/4187653/5765001/GREECE-EN.PDF/2da4e4f6-f9f2-4848-b1a9-cb229fcabae3?version=1.0, (28.11.2016).
[215] BBC News, "Greece admits fudging euro entry", 15.11.2004, http://news.bbc.co.uk/2/hi/business/4012869.stm, (01.08.2016).
[216] Tomáš Paleta, "Maastricht Criteria of… Divergence?" **Review of Economic Perspectives,** Vol. 12, No. 2, 2012, p. 92.

and 2010.[217] Similarly, only Germany entirely observed the inflation criterions of Maastricht between 1999 and 2010.[218] These statistics shows that monetary union of Eurozone is predicated on illusory dynamics which eventuates in deterioration of weak national economies.

Meanwhile, Greece sought to find a solution to mitigate the effects of economic turmoil. Due to its economic statistics that does not meet the criteria and the heavy cost of the hosting the Olympics as earlier mentioned, the new Greek administration attempted to impose new measures like austerity budget to cut country's deficits and to tune the public finance in 2005.[219] These measures and positioned confidence of the country's economy incident to the Eurozone in financial markets introduced a modest economic growth and increase in GDP per capita until 2006.[220]

Due to weak Greek efforts, Greece failed to make necessary structural amendments that might have made these negative economic developments solely period-specific effects. Instead, they had a lasting impact that resulted in a structural continuity. More specifically, short-term improvements veiled the structural economic problems of Greece, such as its shaky credit background, high level of public debt and budget deficits. Furthermore, during the same period, historical level of consumption and low level of productivity investment frustrated the development of a dynamic capitalist economy.[221] Instead, Greece's annual growth rate was stimulated by heavy state borrowing and EU transfers.

[217] Paleta, p. 106.
[218] Paleta, p. 96.
[219] Telegraph, 16.06.2011.
[220] C.J. Polychroniou, "The Greek "Success Story" of a Crushing Economy and a Failed State", 19.04.2014, http://www.truth-out.org/news/item/21265-the-greek-success-story-of-a-crushing-economy-and-a-failed-state, (19.07.2016).
[221] Polychroniou.

Table 1: Government Debt as % of GDP between 2004 and 2015

	2004	2006	2008	2010	2012	2015
EU 28	60.9	60.1	60.7	78.4	83.8	85.0
EURO AREA 19	68.4	67.4	68.6	83.8	89.5	90.4
GERMANY	64.8	66.5	65.1	81.0	79.9	71.2
GREECE	102.9	103.6	109.4	146.2	159.6	177.4

Source: Eurostat, General government gross debt - annual data.

Table 2: General Government Deficit as % of GDP between 2004 and 2015

	2004	2006	2008	2010	2012	2015
EU 28	-2.9	-1.6	-2.4	-6.4	-4.3	-2.4
EURO AREA 19	-3.0	-1.5	-2.2	-6.2	-3.6	-2.1
GERMANY	-3.7	-1.7	-0.8	-4.2	-0.03	0.6
GREECE	-8.8	-5.9	-10.1	-11.2	-8.8	-7.5

Source: OECD Data, General government deficit.

In addition to these data, “competitiveness of the Greek economy has declined by almost 10% since 2000.”[222] This means that Greece in comparison to other European Union countries encountered a significant decrease in its public revenues and lost the ability to create new employment opportunities in many sectors or industries. As a result, during those years Greece’s economic and political dependency on EU countries dramatically increased.

The greatest external blow to the Greek economy came in the form of the US housing market crisis in 2007. The unprecedented Global Financial Crisis of 2007-2008 played a grave role in the outbreak of many disastrous events, such as the bankruptcy of big firms, such as Lehman Brothers and an increase in mercantilist rhetoric nearly throughout the world. Yet, the most calamitous effect of the global 2007-2008 crisis on Greece was an abrupt cut to the Greek borrowing in the global

[222] Dimitris Malliaropulos, “How much did competitiveness of the Greek economy decline since EMU entry?”, **Eurobank Research,** Vol. 5, No. 4, 2010, p. 2.

financial markets.[223] The Greek economy was already heavily dependent on borrowing. This cessation of liquidity became one of the leading causes of the Greek Debt Crisis.

The first sign of the approaching crisis was a dramatic increase in public debt as the previous section mentioned. The second sign was that Fitch, which is one of the leading rating agencies worldwide, downgraded Greece's ratings to "BBB plus" from "A minus" with a negative outlook.[224] More specifically, on the one hand, "A" rating means that an obligor "has strong capacity to meet its financial commitments" and is more enduring to changes in economic outlooks.[225] On the other hand, a "BBB" rating means that "an obligor … has adequate capacity to meet its financial commitments" and is more likely vulnerable to adverse economic conditions.[226]

After the first obvious manifestations of a serious economic crisis, in search of a remedy, the Papandreou administration introduced an austerity package, which cut wages and brought higher taxes for low and middle-income households. These measures, however, were far from being enforceable politically and socially. Moreover, these attempts of the Greek officials triggered terrible social unrest domestically, including bloody protests, which further weakened the government's legitimacy. Finally, at the end of March, 2010 state officials announced that Greece failed to pay its debt, and the EU agreed the first bailout package for the country in May 2010.[227]

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[223] The New York Times, "Explaining Greece's Debt Crisis", 17.06.2016, http://www.nytimes.com/interactive/2016/business/international/greece-debt-crisis-euro.html?_r=0, (02.08.2016).
[224] Helena Smith and Ashley Seager, "Financial markets tumble after Fitch downgrades Greece's credit rating", 08.12.2009, https://www.theguardian.com/world/2009/dec/08/greece-credit-rating-lowest-eurozone, (09.08.2016).
[225] S&P Global Ratings, 18.08.2016, https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352, (30.11.2016).
[226] S&P
[227] Rebecca M. Nelson, et al. "Greece's Debt Crisis: Overview, Policy Responses, and Implications", Congressional Research Service, 2011.

3.1.3 Analysis the Greek Crisis from the perspective of International Cooperation

Since the end of the Keynesian global economic order in early 1970s, neoliberal policies have dominated international cooperation, including financial deregulation. According to the neoliberal outlook, states are expected to open their markets to international financial companies while imposing more cooperative policies and rules, such as an abolition of foreign trade restrictions. This neoliberal penchant in the world economy and politics first pervaded Latin America and Africa in 1970s and 1980s, Russia in the late 1990s, and European Union members during the past decade.[228]

The neoliberal economic outlook has had a great impact on shaping the EU economic framework. This impact pervades the member states through economic and political integration processes occurred in the EU institutions, which are shaped by the national interests of core members, notably Germany and France. Within this process, Germany in particular has always had a decisive influence in shaping economic and political decisions of the community. Self-protectionist economic policies, which are part of the German Ordoliberal tradition,[229] and its strong political influence over other EU members have "set the tone for the Eurozone."[230]

The main strength of neoliberal policies can be summarized as their ability to encourage strong growth rates with low interest rates on a global scale. However, it is possible to discuss two leading negative impact of neoliberalism. First, they carry systemic risks, and economic and financial imbalances.[231] The reason behind these risks and imbalances is that the economies of most countries are dependent on the dominant global economic players, such as the US and Germany. This dependency further consolidates its position with the help of international organizations such as the

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[228] Polychroniou.

[229] Ordoliberalism that took place in Germany after the Second World War espouses the increased role of the state. For ordoliberals, the lack of a powerful government might cause a situation in which private interests will diminish competition.
Simon Wren-Lewis, "Ordoliberalism, Neoliberalism And Economics", 24.01.2014, https://www.socialeurope.eu/2014/01/ordoliberalism-neoliberalism-economics/, (26.07.2016).

[230] Costas Lapavitsas, et al, "Eurozone crisis: beggar thyself and thy neighbour", **Journal of Balkan and Near Eastern Studies,** Vol. 12, No. 4, 2010, p. 331.

[231] European Central Bank, Monthly Bulletin, January 2011, https://www.ecb.europa.eu/pub/pdf/other/art3_mb201101en_pp87-97en.pdf, (03.08.2016).

IMF, which is under the influence of the US, and the European Central Bank, which is under the influence of Germany. Second, neoliberal policies create an environment in which core, rich states are able to maximize their interests through realist state behavior. To comprehend these two negative effects, it is useful to explain salient features of neoliberal system in depth.

The neoliberal system produced a global economic and political order that prioritized the needs of banks, financial institutions, and rich states, and lowered the standard of living of indebted countries.[232] States become part of this neoliberal wave either with their own consent or with the compulsion of the 'system'. They are articulated within neoliberal system in a variety of ways. They privatize public assets; encourage foreign direct investment; facilitate free trade; bring their natural resources into use of private companies; ally with the neoliberal international financial institutions; support export-based economy rather than import substitution industrialization; and exclude any state intervention from the market.[233]

These attempts engender a high level of dependency relations among states, which constitutes the first negative effect of neoliberalism. Unlike the liberal paradigm, in times of crises, dependencies that arise from the neoliberal regulations does not result in absolute gains for weak, periphery countries even at the end of cooperation process. Instead, weak states suffer social downfalls, colossal amounts of public debt and rise of inequalities.[234] Similarly, periods of a high level of international capital mobility are usually accompanied by serious financial crises,[235] as the crisis of 2007-2008 in the US housing market illustrated. According to the Keynesian point of view "the problem is not capital mobility but too much capital mobility, which essentially amounts to financial pollution"[236] and market failures. Another striking example is that states such as Argentina and Mexico that embraced neoliberal policies in the early 1980s have experienced very serious economic downturns.[237] However, states such as South Korea and Japan that do not adopt these policies and followed

[232] Harvey, p. 81.
[233] Harvey, pp. 13-17.
[234] Polychroniou.
[235] Kirshner, p. 8.
[236] Kirshner, p. 68.
[237] Harvey, p. 83.

import substitution industrialization and protectionist policies have very robust economies today.

Due to the framework of neoliberalism, dependency causes economic crises to become contagious. States cannot isolate themselves in international system from an economic distress in any neighbor due to a number of factors. These factors mainly are financialization, a high volume of international trade, fluctuations in international monetary system, increasing interdependence, financial speculations, and the momentum of globalization. As liberals suggest, states believe that the cost of staying within the system is lower than staying out. However, economic crises have illustrated that in the long run, rich core states preserve their interests, while the loss of weak, periphery countries gains structural characteristics. This situation signals the second negative feature of neoliberal outlook. Losses that derive from fallacious investment decisions were borne by lenders in liberal economic system, while in the neoliberal system all costs are borne by debtor or borrower countries.[238] The Greek Debt Crisis and subsequent European Sovereign Debt Crisis are consequences of an inflexible European project that firmly presses its weaker members for the interests of core members in this regard.

In addition to catastrophic consequences of neoliberal policies, EU institutions and regulations have played a more important role in the Greek crisis than is often publicly acknowledged. The reason behind this role mainly resulted from apathetic behavior of its institutions, including councils and packs, and their regulations that are based on German economic and political practices. On the one hand, European Central Bank dawdled at the outset of the crisis and was unable to afford any solution-oriented policy.[239] Similarly, Economic and Financial Affairs Council (Ecofin) initially stated that Greece must go through the crisis by its own means.[240] On the other hand, during the development of the euro in 1999, the target for inflation, for example, was determined by the European Central Bank according to German labor markets.[241] Germany, however, did not stick to neoliberal principles in the aftermath of ECB's

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[238] Harvey, p. 37.
[239] Kevin Featherstone, "The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime", **Journal of Common Market Studies,** Vol. 49, No. 2, 2011, p. 202.
[240] Featherstone, p. 202.
[241] Moravcsik, Europe After the Crisis, p. 58.

regulation and decided to dampen its prices and wages.[242] As a result, the competitiveness of German economy has steadily increased within the Eurozone, and led to an accrual of a structural current account surplus for Germany.

Similar to the European Central Bank's regulations outlined above, the impact of the Eurozone on other economies, especially periphery countries like Greece, have been destructive due to their structural weaknesses and adoption to the same monetary policies of all Eurozone members regardless of their economic level.[243] Some of these implications, for example, are overall growth of EU countries that has come from over-consumption and investment bubbles, and entrenched current account deficits in periphery countries.[244]

However, EU members who opted to stay outside the Eurozone have generally fared better in terms of dealing with the effects of the financial crisis. Flexibility, especially with regard to monetary policy and exchange rates, plays an important role in the elimination of economic distresses. The European financial crisis, for instance, barely touched the UK because they had the freedom to revalorize currency and alter its monetary policy. Membership of periphery countries to Eurozone, therefore, has pointed the way for financial crisis. More precisely, the desire for closer cooperation among EU members paved the way for the most catastrophic political and economic situation the EU has yet faced.

3.1.3.1 Cost of Staying in Eurozone: Bailout Programs for Greece

"Europe in its infinite wisdom decided to deal with this bankruptcy by loading the largest loan in human history on the weakest of shoulders, the Greek taxpayers. What we've been having ever since is a kind of fiscal waterboarding that has turned this nation into a debt colony."[245] These words of Yanis Varoufakis, who is a professor of economics and the former Greek finance minister, carry a profound meaning about the real intentions of the EU member states. This is not a view shared by only Varoufakis. Many scholars have given thought to the crisis and sharply criticized the

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[242] Moravcsik, Europe After the Crisis, p. 58.
[243] Lapavitsas, p. 322.
[244] Lapavitsas, p. 322.
[245] Yanis Varoufakis, 21.04.2016, (Video Record), **World Affairs Council**, https://www.youtube.com/watch?v=74eFXJmcgwY, (10.08.2016).

Union's unadaptable policies that exacerbate the slumps within weak economies like Greece.[246] Three bailout packages for Greece have led the field in this respect.

In May 2010, the EU agreed its first-ever bailout loan package (also known as "The Economic Adjustment Programme for Greece") for Greece with the joint efforts of the Eurozone (approximately €70 billion) and IMF (approximately €40 billion) financing package of €110 billion.[247] The loan package gave weight to wages cut, discharge of bureaucrats, privatizations of state-owned properties and the tight liquidity terms in banking sector in Greece.[248] However, "less than 10% of the money was used by the government for reforming its economy and safeguarding weaker members of society."[249] This bailout package, therefore, was neither a solution for the current crisis nor an initiative of promising future for Greece. It explicitly shows that the Troika initially aims to rescue the private institutions, including the German and French banks.[250] Once the banks of core countries are protected and balanced, it is more likely for these countries to dispose of the harsh impact of the Greek crisis.[251] As a result, this grave contradiction between the Troika's demands from Greece and utilization conditions of loans has led to a gradually increase in Greece's public debt and initiated a comprehensive discussion over the loan packages. Worse, Greece will likely to default on its payments and interests without making sufficient investments and stimulating the manufacturing sector.

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[246] For a brief look of inadequacies on EU monetary integration and Maasricht criteria, see Paul de Grauwe, "The Economics of Convergence: Towards Monetary Union in Europe" **Weltwirtschaftliches Archiv,** Vol. 132, No. 1, 1996; John Rosenthal, "Germany and the Euro Crisis: Is the Powerhouse Really So Pure?", **World Affairs**, Vol. 175, No. 1, 2012.
[247] Europa, "The Economic Adjustment Programme for Greece", http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/op61_en.htm, (15.08.2016).
[248] Nicholas C. Baltas, "The Greek Financial Crisis and the Outlook of the Greek Economy", Working Paper Series 19-2013, **Athens University of Economics And Business,** p. 7.
[249] Phillip Inman, "Where did the Greek bailout money go?", 29.06.2015, https://www.theguardian.com/world/2015/jun/29/where-did-the-greek-bailout-money-go, (15.08.2016).
[250] Ronald Janssen, "Greece and the IMF: Who Exactly is Being Saved?", Center for Economic and Policy Research, 2010, p. 1.
[251] Stephen D. Simpson, "Will Germany's Bailout Save Europe?", http://www.investopedia.com/financial-edge/1112/will-germanys-bailout-save-europe.aspx#ixzz4IF7swhYu, (24.08.2016).

On March 2012, the second Greek bailout by €130 billion,[252] and on July 2015 the third Greek bailout by €85 billion[253] were agreed. In addition to their parallel demands with the first bailout package, while the IMF fixed on effective interest rate around 3.6% for all Greek bailouts, loans from the Eurozone for Greece was set on around 1%.[254] Unlike the assumption of liberal approach which claim that international organizations can mitigate the negative effects of a crisis among members, as statistics above shows, international organizations are self-interested players in international relations. The responses of international organizations, such as IMF, barely addressed the already difficult the Greek turmoil instead of alleviating the crisis. The IMF loans with usurious rates have burdened Greece with larger debt. This interest rate also shows that the IMF appears to react like a rational actor that seek to maximize its self-interest. Another prominent evident is that "the IMF has made €2.5 billion of profit out of its loans to Greece since 2010."[255]

Similar to the IMF's utility maximizing approach, EU has hardly been cooperative in alleviating the crisis either. The EU, for example, has remained reluctant to accept any debt relief for Greece, while the IMF stipulated a debt relief for its involvement to the third bailout.[256] Yet, they compromised on those rules that the EU approved although the IMF stated that Greece will undergo a significant burden of debts worth 250% of its GDP by 2050 without reassessment of repayment provisions and interest rates.[257]

The impetus behind these bailout packages was to ameliorate the Greek crisis. Since the outset of the crisis, however, the efforts worked at cross purposed. The Greek economy has deteriorated sharply instead of indicating progress. Some negative consequences of a high degree of interventions of creditors, especially Germany and

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[252] Stephen Castle, "With Details Settled, a 2nd Greek Bailout Is Formally Approved", 14.03.2012, http://www.nytimes.com/2012/03/15/business/global/greece-gets-formal-approval-for-second-bailout.html?_r=2, (16.08.2016).
[253] BBC, "Third Greece bailout: What are eurozone conditions?", 21.08.2015, http://www.bbc.com/news/world-europe-33905686, (17.08.2016).
[254] Financial Times, "Can Greece really pay back its debt?", 23.05.2016, http://www.ft.com/fastft/2016/05/23/greek-debt-dilemma-cheat-sheet/, (15.08.2016).
[255] Jubilee Debt Company, "IMF has made €2.5 billion profit out of Greece loans", 08.04.2015, http://jubileedebt.org.uk/news/imf-made-e2-5-billion-profit-greece-loans, (15.08.2016).
[256] Economist, "A third bail-out gets the green light", 15.08.2015, http://www.economist.com/blogs/freeexchange/2015/08/greece-and-euro, (17.08.2016).
[257] Jennifer Rankin, "Eurozone unlocks €10.3bn bailout loan for Greece", 25.05.2016, https://www.theguardian.com/world/2016/may/24/eurozone-officials-hope-to-give-greece-next-tranche-of-bailout, (17.08.2016).

the IMF, on Greece are “a decline in GDP of close to 25 per cent since 2010, a rise in unemployment to a level we have not seen since the 1930s, and impoverishment of large parts of the Greek population.”[258] The fall of Greece’s GDP has been among the severest economic collapses in modern history, particularly considering that Greece is not at war.[259] Furthermore, while Greece’s debt as a percentage of GDP was 146.2% in 2010 and it soared to 176.9% in 2015.[260] Harsh conditions of bailout packages, contrary to expectations, have impaired labor markets, created enormous budget deficits, and increased public debt in debtor countries. As a result, these countries are in urgent need of other forms of aid that might worsen their economies.

Germany has mainly preserved their interests through the efforts of its realist policies and performed a progressing macroeconomic performance during the Greek Debt Crisis and subsequent European Sovereign Debt Crisis. The German current account surplus, for example, reached to its record levels during the European financial crisis.[261] Worse, Germany has experienced enormous export gains due to the devastation of periphery countries’ productive base[262] and utilized this surplus for lending back to these countries.[263] Germany anew aimed to increase demand in those countries towards its own exports.[264] A high volume of export also accompanied by a modest growth in Germany since 2010.[265] The IMF stated that “stronger and more balanced growth in Germany is critical to a lasting recovery in the euro area and global rebalancing”[266] The fact that “in the past six years of euro crisis, the gap (between

[258] Paul De Grauwe, “Debt relief for Greece is necessary to avoid a crisis in the Eurozone”, 14.01.2015, http://blogs.lse.ac.uk/eurocrisispress/2015/01/14/debt-relief-for-greece-is-necessary-to-avoid-a-crisis-in-the-eurozone/, (18.08.2016).
[259] Matt O'Brien, “7 key things to know about Greece’s debt crisis and what happens next”, 05.07.2015, https://www.washingtonpost.com/news/wonk/wp/2015/07/05/as-greece-votes-heres-everything-you-need-to-know-about-the-nations-crisis/, (22.08.2016).
[260] Eurostat, “General government gross debt - annual data”, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1, (22.08.2016).
[261] Robert Kollmann, et al, “What drives the German current account?”, **European Economy, Economic Papers** 516, 2014, p. 2.
[262] John Milios and Dimitris P. Sotiropoulos, "Crisis of Greece or crisis of the euro? A view from the European ‘periphery’", **Journal of Balkan and Near Eastern Studies**, Vol. 12, No. 3, 2010, pp. 226-227.
[263] Lapavitsas, p. 322.
[264] Featherstone, p. 200.
[265] World Bank, “GDP growth (annual %)”, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=DE, (02.12.2016).
[266] The IMF, “Press Release: IMF Executive Board Concludes 2013 Article IV Consultation with Germany”, No. 13/299, 06.08.2013,

Germany and other Eurozone members) has become larger, more visible and more controversial"[267] signals the accuracy of the IMF's statement.

As these figures and aforementioned details demonstrate, prior to the Greek Debt Crisis Germany had built a strong capitalist economy through political and economic integration mechanisms that have served the German interests. Political incentives for the further integration to the EU accelerate periphery countries' articulation into the monetary union and neoliberal system, despite their glaring weaknesses. This articulation creates new markets for German exports and increases German competitiveness in the EU market. In other words, all these efforts paved the way for a beggar-thy-neighbor policy for Germany. During the crisis, Germany followed the utility maximizer approach and set the stage for austerity measures that further damaged the national economies of the periphery, especially Greece.

In 2016, "the IMF itself admitted that so-called multipliers - elements of a formula they used to make economic forecasts during the euro-crisis - had been wrong because they underestimated the impact of austerity on the economy."[268] The Troika, similarly, stated that they had used these wrong economic statistics for the Greek Debt Crisis.[269] In addition to incorrect and imprecise policies of the EU and financial institutions, the Greek Debt Crisis and subsequent the Greek bailout programs have laid bare the aims of the EU core countries. The core, most notably Germany, who fished in troubled waters during the crisis, have insisted on looking out for their own national interests instead of reversing Greece's descending economic outlook. These manipulative and unilateral policies might pose a risk to the EU's political integration.

[267] The economist, "Of rules and order", 09.05.2015, http://www.economist.com/news/europe/21650565-german-ordoliberalism-has-had-big-influence-policy-during-euro-crisis-rules-and-order, (22.08.2016).
[268] Valentina Pop, "Troika officials admit errors, as criticism mounts", 06.11.2013, https://euobserver.com/economic/121993, (28.11.2016).
[269] Pop.

CONCLUSION

The Greek Debt Crisis, which started in 2010, rapidly became a political crisis in Europe and led to discussions concerning the foreseeable future of the Union. Many economic and political arguments are developed to explain the causes and effects of the crisis. Scholars and politicians proposed many scenarios for Greece, including the leaving the Eurozone or staying in it. EU core states and liberals criticized Greece for shirking its own duties during this period, while Greece and realists blamed misleading policies and regulations of core states and international financial institutions for the chaotic environment. Despite the blame game and several options, the EU decided to bail Greece from this stalemate. However, it did not take long to reveal that this decision served core EU countries' interests instead of constituting cooperation. As a result, their rescue packages damaged the already existing situation in Greece.

Having the briefly described outline of the study, its major objective is to contribute to the political approach of global economic crises. It began with the difficulties of the Great Depression of 1929. The First World War engendered a colossal political burden for defeated powers, forming the basis of an environment with a lack of cooperation. In addition to transition to war economies, including protectionist policies, a decrease in international trust caused economic turbulence to gain a contagion effect. Furthermore, a consumption frenzy in the US caused the Great Depression to be unavoidable. The Great Depression initiated a new era. First, it ended the gold standard, and then it paved the way for the Second World War through a series of developments. These were a fall in international trade volume, relinquishment of free trade for a while, and government and regime reshuffles. The study asserted that a major part of these causes and effects of the Great Depression had some parallels with today's crises.

The study then analyzes the US-based Global Financial Crisis of 2008 from the economic and political perspectives. Fallacious individual and institutional preferences in the US created a housing bubble. Banks continued to create fictitious money. At that term, 97% of all money in the market is bank deposits.[270] A rapid increase in the number of people, who failed to pay their debt, engendered a financial

[270] Mcleay, p. 2.

crisis whose implications are on global scale. Although this financial crisis was economically rooted, what makes the crisis globally is the lack of cooperation. Neoliberal outlook here had a significant role. The study discussed that neoliberalism particularly required states to open their markets and privatize their public assets. It, however, did not offer any effective method to weak and periphery countries about how to deal with inequitable conditions of competition that created by the strong economies. The most important symptom of this problem is the pace of infecting the weak economies around the world, including EU periphery.

In addition to the effect of the US-led Global Financial Crisis on the outbreak of the Greek Debt Crisis, the study asserted that deterioration of Greece's economy was largely a result of self-interested and hasty policies of EU core states. The pace and scope of the EU economic integration for further political incentives, such as accession of twelve countries to the EU within just three years, provided the Greek economy to gain a structural weakness. European Economic Integration stages, for instance, created a system that decreases periphery countries' competitiveness and contributes to core states' trade balance. Similarly, the Maastricht criteria served EU core states' interests by providing competitive profits, and ensuring qualified migration and movement of service and goods easier in their favor. Therefore, this study claimed that the integration efforts that took place under the leadership of the EU core states are far from the concept of cooperation in international relations. EU state behavior during the Greek Debt Crisis has illustrated this lack of cooperation more clear.

This study principally concentrated on EU state behavior during the Greek Debt Crisis. It discussed the role of EU core states' policies on the Greek Debt Crisis and the way in which these policies paved the way for a broader crisis, to wit, European Sovereign Debt Crisis. For a theoretical understanding, the study first explained the main assumptions of the leading international relations theories, namely liberalism, realism, and their variants. Due to its explanation of power and interest, the study tried to examine state behavior during the crisis with the help of realist paradigm. Realists remain skeptical about the international cooperation because they argue that states eventually opt short-term gains or they leave the cooperation if they anticipate any decrease in their relative gains. In this regard, despite the crisis, the main goal of EU core states was to maximize their interests by requiring Greece to pay its debts with loan packages, as Greece largely owed to private financial creditors, including German banks and the IMF. The EU that was designed to restrict the effects of international anarchy for their members created an anarchic environment for its weak, periphery with the outbreak of the crisis.

The study also asserted that unlike liberal belief, convergent state preferences do not result in cooperative behavior among EU member states in the Greek Debt Crisis. Many developments pointed out this lack of cooperation among EU countries. After the bailouts, the EU and especially Germany refused IMF's debt relief request for Greece,[271] and ceteris paribus, the Greek economy will thus face a burden of debt worth 250% of its GDP by 2050.[272] Despite its constructive request for Greece, however, the IMF has gained around € 3 billion as profit from the loans to Greece since the outset of the crisis.[273] Another consequence of the lack of cooperation is that Germany experienced a current account surplus during the European Sovereign Debt Crisis, while economies of debtor countries worsened.[274] The final indicator of this lack of cooperation is a significant decrease in competitiveness of the periphery.[275]

Finally, the Greek Debt Crisis has turned into a severe political crisis affecting all EU countries. Although efforts to keep Greece within the EU seem to be cooperative at the first glance, what measures should be taken for EU sustainability is still a question that should be answered. These questions are mainly focused on the following subjects. The first critical issue is whether Greece should remain in the Eurozone or reintroduce its national currency. It is clear that both decisions would have significant consequences for both Greece and the Union. The second issue is related to the way in which the EU should pursue its integrity. In this sense, the EU's probable economic and political decisions are very important. The crisis has especially encouraged debate on a monolithic union that envisages reaching the same goals at different times from states with economic and political structures at different levels.

First, the reintroduction of the national currency would give Greece the opportunity to devalue its currency. Devaluation would increase the resistance against

[271] Economist, "A third bail-out gets the green light".
[272] Rankin.
[273] Jubilee Debt Company.
[274] Kollman, p. 2.
[275] Malliaropulos, p. 2.

economic shocks and the ability to control of the competitiveness of Greek products in the European market.[276] However, the political and economic consequences would be much worse. Economically, the most important effect of reintroducing national currency would be a harsh devaluation of the exchange rate. Devaluation of the Greek currency would cause a significant amount of the capital to flow out of the country.[277] Worse, “a much devalued national currency would lead to an upward explosion in the value of public and private debts” especially due to its private debts that set as the euro.[278] More precisely, reintroduction of the Greek currency would result in capital shortages, enormous defaults, inability of both government and private companies to borrow, and a significant decline in production. In addition, this reintroduction may encounter some technical difficulties, such as releasing the new coins and notes, a detailed planning about the software and the need for modifications of machinery systems.[279] The aforementioned potential problems show that reintroduction of its national currency would not be a way of eliminating the negative effects of the Greek Debt Crisis and the EU’s misleading policies.

Politically, the EU, in the aftermath of the probable reintroduction of the Greek national currency, would impose some strict political sanctions and punishments against Greece such as being throwing out of the Schengen Area or excluded from the security cordon against immigrants. Although an exit from the Eurozone does not strictly mean leaving the EU, it is likely that the consequences will bring Greece to the brink of EU membership. In general, some economists like Paul Krugman and Joseph Stiglitz see leaving the Eurozone as the best decision in the long run to reform Greece’s economy, while others, including some Greek economists, state that this decision would result in catastrophic consequences in all its dimensions.[280]

The second critical issue concerns whether the EU will continue to be affected by such disruptions or by new structural changes. The crisis obviously had negative impact on the European integration. The EU still lacks an institutional framework for

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[276] Patrick Leblond, "One for All and All for One: The Global Financial Crisis and the European Integration Project", **Cirano**, 2011, pp. 8-12.
[277] Leblond, pp. 11-12.
[278] Leblond, p. 12.
[279] Leblond, p. 13.
[280] Jordan Weissmann, “What Will Happen to Greece If It Leaves the Euro?”, 07.07.2015, http://www.slate.com/blogs/moneybox/2015/07/07/what_would_happen_if_greece_leaves_the_euro_the_best_and_worst_case_scenarios.html, (19.12.201).

this fundamental problem. As this study discussed earlier, the lack of harmony between supranationalism and nation-state levels in the EU constituted one of the leading causes of the economic imbalances. The EU continued to maintain this tradition during the crisis. They tried to solve the euro crisis, which occurred at the supranational level, with rescue packages at the level of member states' governments. Therefore, the most crucial response that EU will give to the crisis would be to converge all EU member states and institutions on the common ground by eliminating this lack of harmony.

To prevent this decomposition between intergovernmentalism and supranationalism, the EU must primarily harmonize distinct political and economic interests among its members. Northern European countries follow export-oriented policies and seek budget surpluses, while the EU frequently tolerates flexible macroeconomic policies that might cause the economic distresses in countries whose growth is based on domestic demand.[281] These institutional differences prevent member states from pursuing convergent fiscal policies, and are thus accompanied by the financial crises.

To conclude, the imprudent stages of economic integration that the EU developed in favor of its core countries have dragged the Union into an existential crisis. In addition, the Greek Debt Crisis, the European Sovereign Debt Crisis and a number of serious negative consequences resulting from these developments have shown that the European Union cannot continue with its current structure. To explain using EU terminology, the monolithic EU architecture, which foresees the integration of the member states with different structural characteristics at different times, has failed to lay a proper foundation for the expected economic and political explosion of the Union, especially for the periphery. This multi-speed Europe[282] ideal requires paying special attention to its role in the failure of monetary and fiscal policies. A non-monolithic EU architecture, which foresees the integration of member states at different levels or in areas more suited to their structural characteristics is a potential solution to existing problems. However, despite the aforementioned suggestions, the

[281] Peter A. Hall, "The Economics and Politics of the Euro Crisis", **German Politics,** Vol. 21, No. 4, 2012.
[282] For a more detailed explanations of different models of European Integration, see Alexander C-G. Stubb, "A Categorization of Differentiated Integration", **Journal of Common Market Studies**, Vol. 34, No. 2, 1996, pp. 283–295.

EU must overcome the chronic lack of cooperation that the Greek Debt Crisis brought to light to achieve its economic and political goals.

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