

Preface

In September 2009 international public opinion appeared contented that the global financial crisis, which had begun in 2007, had been successfully dealt with. The measures that had been taken by the developed world – the drastic lowering of interest rates, unprecedented support for banks with public money and International Monetary Fund support for certain countries – had managed to avert a general economic collapse. Newspapers reported good news: stock prices were on the rise again; liquidity was returning to the markets; banks had regained access to capital; sovereign borrowing costs had shrunk spectacularly.¹

In September 2009, the G-20 Summit at Pittsburgh, USA, also confirmed that the response to the 2007 crisis had been successful. It was noted that positive rates of economic growth had returned.² The European Council of 10–11 December 2009 was also optimistic. It stated that ‘the economic situation is beginning to stabilise and confidence is growing. We predict a weak recovery for 2010 and a return to higher rates of growth in 2011.’³

But there were also some critical voices, pointing out that the aftermath of the 2007 crisis was not so rosy.⁴ Experience, they maintained, shows that financial crises open up deep wounds. When sovereign debt grows beyond certain levels, restrictive policies become necessary. Growth does return but at a much lower rate than before and the risk of long-term stagnation is great. However, a widespread feeling that the crisis was over prevailed and with it came the conviction that stability and growth would soon follow. What failed to be predicted was the extent to which a sovereign debt crisis would create serious problems for the functioning of the European Union (EU).

By mid-October 2009, commentators appeared increasingly concerned ‘that the fear of debt shall replace the existing fear of crisis’.⁵ Projections of the fiscal performance of member states revealed that in many countries budget deficits would far exceed the 3% limit stipulated by EU treaties and, in many cases, would reach between 5% and 10% of gross domestic product (GDP). Such deficits, under the recession fuelled by the crisis, would lead to a fast rise in sovereign debt. Certain economists maintained that governments should react swiftly with public spending cuts. However, the then dominant view

within the Union held that it was too early to implement a common strategy for curbing debt. Every country would, therefore, have to show prudence and strive for economic stability independently, using whatever ‘national’ means it had at its disposal.

In this climate of doubt and indecision the news that Greece’s deficit for 2009 had reached 12% of GDP turned everyone’s attention on Athens. European public opinion felt that Greece had squandered European funds and goodwill and, as such, did not belong in the Eurozone. Greece was an example that proved how mismanagement leads to crisis. Greece’s predicament, it was thought, was exceptional, not the result of the Eurozone’s own design.

As the crisis unfolded, it became apparent that other Eurozone countries displayed identical symptoms to those of Greece, albeit to a different degree. Portugal, Ireland, Spain and even Italy were described as countries in danger. From being a strictly Greek problem, the debt crisis now turned into a problem for the Eurozone and the EU as a whole. The attempts to deal with it raised the need to restructure European institutions. The task of reform, however, still remains incomplete, despite the efforts that have been made in this direction.

This book traces the development of the debt crisis in the Eurozone from the moment it manifested itself in Greece to June 2013, when European leaders began to seek a broader and permanent solution for its economic governance.

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Notes

- 1 See M. Wolf, ‘Economie’, *Le Monde*, 8 September 2009; P. A. Delhommais, ‘La crise de 1929 n’aura pas lieu’, *Le Monde*, 6/7 September 2009.
- 2 See ‘Economie’, *Le Monde*, 27/28 September 2009.
- 3 European Council, 10/11 December 2009, ‘Conclusions’, p. 3.
- 4 See J. Pisani-Ferry, ‘Economie’, *Le Monde*, 29 September 2009.
- 5 J. Pisani-Ferry, ‘La peur de la dette’, ‘Economie’, *Le Monde*, 27 October 2009. See also M. Wolf, ‘La dette ce fardeau soutenable’, ‘Economie’, *Le Monde*, 1 December 2009.