



Obama's Foreign Policy and the Greek Debt Crisis

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- Summary**
- President Obama's foreign policy has been criticized for being ideological and isolationist. Yet the Greek debt crisis provides a case study of his engagement in Europe in a manner that continues the tradition of U.S. involvement in the European project for geopolitical, as well as economic, reasons.
 - For international relations theorists, it has been hard to fit President Obama's foreign policy into a single school of international relations theory. His approach to the Greek debt crisis supports the argument that he applied a hybrid approach based on Secretary Albright's term 'Realist Idealism'.
 - As President, Obama started with a liberal internationalist approach, developed a healthy dose of pragmatism in prioritizing his foreign policy engagements, and employed a "smart power" approach that used every aspect of America's power and sometimes meant leading from behind.
 - In the context of the Greek debt crisis, the U.S. role was limited in terms of how much it helped alleviate the prescribed austerity or provided meaningful debt relief, since President Obama was inclined to leave these decisions to the Europeans.
 - Still, his interventions in 2010, 2012, and 2015 helped keep Greece in the eurozone, and his support for Greece as a trusted mediator helped improve perceptions of the U.S. among the Greek public.

WHEN HE WAS ELECTED THE FIRST African American president of the United States in 2008, Barack Obama promised to focus on a domestic agenda of social and political change. To support this, the central promise of his presidency, he proposed a foreign policy which aimed to make America safer by ending the wars in the Middle East and by rebuilding its international alliances.¹ His foreign policy also included a pivot to Asia to face the challenge of a rising China. That policy came with a rebalancing that implied less focus on Europe and a disengagement from the Middle East, where Obama had committed to ending the wars that had dominated American engagement abroad since 9/11.

In these foreign policy choices, some international relations theorists see the instincts of an isolationist president who was keen to shed the role of the world's police officer to focus on domestic matters. They note that, while he was President, Obama avoided opening new theaters of conflict and even backed away from his own red lines, most notably in the case of the use of chemical weapons in Syria by its president Bashar Al-Assad. He is thus blamed for ceding America's leadership role and for a lack of strategy. As per one of his critics, Obama's "conviction that history would bend on his direction reads more as a religion than a strategy".² But even though one can debate how successful his strategy was, he did set out with concrete foreign policy goals that were based on a liberal internationalist ideology.

President Obama proposed a foreign policy which aimed to make America safer by ending the wars in the Middle East and by rebuilding its international alliances.

Some international relations theorists tend to emphasize the role of ideology in his decisions, labeling his foreign policy as "liberal-realist", based on a perceived reliance on a combination of liberal and realist ideas.³ However his realism was more pragmatic than ideological, as it was an approach that he developed during his presidency. As Ian Black, *The Guardian's* Middle East editor put it in a 2012 article, at the end of Obama's first term, "an extraordinary chain of unforeseen events—a hazard for any leader—created new circumstances and new dilemmas" that tested his convictions.⁴ Indeed, when he needed to adjust his goals in the face of new developments, he demonstrated a healthy dose of pragmatism, leading former Secretary of State Madeleine Albright to coin the term "Realist Idealism" to describe Obama's approach to foreign policy. This applied especially to his decision to delay the promised end to America's war on terror in Afghanistan and Pakistan as the situation on the ground was deemed to demand a continued U.S. presence in the region.⁵

Similarly, Obama's support for democracies was not based purely on idealism, and was driven by practical concerns, too. Speaking in Athens at the end of his presidency in 2016, he argued that democracies tend to be more just, stable, and successful. Importantly for American national security, he added that democracies also tend to fight less with each other.⁶ Obama clarified that his often-quoted "moral arc of history" bends towards justice "not because it is inevitable, but because of the people that have the vision, courage, and will, to bend the arc of their lives to a better future". When applied to the practice of foreign policy, his goal was to harness these ideas without entangling the United States in new conflicts.

¹ Obama's foreign policy speech, *The Guardian*, available at: <https://www.theguardian.com/world/2008/jul/16/uselections2008.barackobama> 16 July 2008

² Obama is not a realist, Josef Joffe, *The Atlantic*, available at: <https://www.theatlantic.com/international/archive/2016/03/obama-doctrine-goldberg-realist-isolationist/473205/> 10 March 2016

³ Ideology and the Foreign Policy of Barack Obama: A Liberal-Realist Approach to International Affairs, Brendon O'Connor, Danny Cooper 2021

⁴ Full text of Obama's speech in Cairo, NBC news website, available at: <https://www.nbcnews.com/id/wbna31102929> 4 June 2009

⁵ Obama's Realist Idealism, Madeleine Albright, *New Perspectives Quarterly*, available at: <https://onlinelibrary.wiley.com/doi/10.1111/j.1540-5842.2009.01059.x> 24 April 2009

⁶ Remarks by President Obama to the People of Greece, U.S. Embassy in Greece website, available at: <https://gr.usembassy.gov/remarks-president-obama-people-greece/> 21 November 2016

The conviction that the U.S. can be a catalyst for change in the world without the involvement of its army was largely driven by a very concrete goal: Obama's promise to end America's "forever wars".

The conviction that the U.S. can be a catalyst for change in the world without the involvement of its army was largely driven by a very concrete goal: Obama's promise to end America's "forever wars". When he opted not to use American military power, he sought to substitute other aspects of American power for it, reverting to the advantage of the nation's alliances, as well as to his own aspirational version of American moral leverage. When he supported military intervention abroad, as he did in Libya, he only did so to prevent a humanitarian crisis, as part of a broad coalition, and in accordance with the mandate of the UN Security Council. That said, President Obama did not shy away from using drones and even special forces to hit specific targets, most notably Osama Bin Laden, in the same way an interventionist president would.

Between liberalism and pragmatism

His idealism was most evident, and tested, in the Middle East. Criticizing the previous U.S. policy of focusing on the war in Iraq and trying to build a democracy in Afghanistan, he put forward a different proposition: withdrawing from Iraq and limiting the goal for Afghanistan to fighting Al Qaida.⁷ At the same time, he made a subtle push for democracy in his first speech abroad in Cairo, promising "a new beginning between the U.S. and Muslims around the world," one in which the U.S. would not lecture the world.⁸ During the Arab Spring, Obama expressed his support for the aspirations of protesters across the region for greater democracy and individual rights. However, the violence which spread across the region, and Libya in particular, where the U.S. ambassador was killed after an attack on the U.S. consulate in Benghazi, suggested that this strategy was also flawed.

The tension between realism and liberalism is evident in the memoir of Ben Rhodes, Obama's foreign policy adviser. His book has been characterized as "a coming-of-age story, about the journey from idealism to realism".⁹ Among other illuminating incidents, he describes how President Obama's initial inclination to strike Syria after the revelations that President Assad had used chemical weapons against his own people was dampened by the German Chancellor Angela Merkel, who suggested giving the United Nations time to reach the same conclusion. Eventually, Obama's failed effort to get Congressional authorization ruled out any U.S. strike in Syria.¹⁰

Failing to find a common thread running through his international engagements, some theorists have opted for a hybrid approach, using different schools of thought to analyze his foreign policy depending on the circumstances: they see a liberal internationalist when he sought to achieve coalitions to tackle international challenges; a neoconservative when he ordered strikes to take out terrorist targets in foreign countries; and a neo-isolationist when he tried to opt out of the role of the world's police chief. However, every American president has claimed the right to hit targets abroad, if they constitute a national security threat, or in retaliation. As for neo-isolationists, they also wish to distance the United States from the UN and other international organizations, while Obama's approach was to seek UN approval before foreign engagements, and to build international coalitions to tackle international crises. If anything, he hoped to share some of America's responsibilities with its allies and partners, a goal that would prove more difficult than he expected.

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⁷ Obama's remarks on Iraq and Afghanistan, The New York Times, available at: <https://www.nytimes.com/2008/07/15/us/politics/15text-obama.html> 15 July 2008

⁸ Full text of Obama's speech in Cairo, NBC news website, available at: <https://www.nbcnews.com/id/wbna31102929> 4 June 2009

⁹ Deep inside the Obama White House, Joe Klein, The New York Times, available at: <https://www.nytimes.com/2018/06/05/books/review/ben-rhodes-world-as-it-is.html> 5 June 2018

¹⁰ The World As It Is, Ben Rhodes, p. 231 2018

If anything, Obama hoped to share some of America's responsibilities with its allies and partners, a goal that would prove more difficult than he expected.

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...the rebalancing of American foreign policy priorities proved harder than the Obama administration had hoped, as regional developments demanded a continued U.S. engagement in Europe.

However, hybrid may also suggest a position that has no guiding principle. Noting his inexperience, some critics characterize his foreign policy as "ad hoc, erratic and seemingly confused".¹¹ The Republican party used the term "leading from behind" to dismiss his foreign policy. The term was first attributed by the New Yorker to a White House source in the context of Libya and was subsequently used to characterize his foreign policy doctrine. But even though there were occasions when it looked as if President Obama was indeed "leading from behind", he and his team denied having such a doctrine.¹²

Smart power and selective engagement

What is generally accepted is that President Obama followed a restrained approach to the use of American power. In making the case for the need to use diplomacy and build international consensus, he quoted Thomas Jefferson, who said, "I hope that our wisdom will grow with our power and teach us that the less we use our power, the greater it will be".¹³ Some foreign policy hawks begged to differ. They noted that problems like those presented in the Middle East do not solve themselves—that, without American intervention, they metastasize.¹⁴

No matter how one assesses his foreign policy, it is indisputable that Obama followed a strategy of selective engagement. As the name suggests, that strategy comes down to remaining engaged across the world through alliances, while retaining a strong military presence to protect the national security interests of the United States.¹⁵ President Obama aimed to "double down in those parts of the world where success is plausible, and limit America's exposure to the rest".¹⁶ However, he did not like the term "leading from behind", preferring what his Secretary of State Hillary Clinton called a "smart power" approach, tempering the use of hard weaponry with the "soft power" of persuasion and cultural attraction.¹⁷

Where Obama focused his foreign policy was determined by two well-documented goals: to end the war in Iraq and to meet the challenge of a rising China. Hence the "pivot to Asia" which, according to Secretary Clinton, sought "to build a web of partnerships and institutions across the Pacific that is as durable and as consistent with American interests and values as the web we have built across the Atlantic".¹⁸ Yet the rebalancing of American foreign policy priorities proved harder than the Obama administration had hoped, as regional developments demanded a continued U.S. engagement in Europe to help manage the evolving eurozone crisis during the first half of the 2010s. And while, in the Middle East, the responsible exit from Iraq and Afghanistan was complicated by the rise of ISIS, so the Greek crisis required his administration to pay an unexpected amount of attention to financial and political conditions within the eurozone.

¹¹ The Obama Doctrine: Leading from behind, Charles Krauthammer, The Washington Post, available at:

https://www.washingtonpost.com/opinions/the-obama-doctrine-leading-from-behind/2011/04/28/AFBCy18E_story.html 28 April 2011

¹² Who really said Obama was leading from behind, Josh Rogin, Foreign Policy, available at: <https://foreignpolicy.com/2011/10/27/who-really-said-obama-was-leading-from-behind/> 27 October 2011

¹³ Full text of Obama's speech in Cairo, NBC news website, available at: <https://www.nbcnews.com/id/wbna31102929> 4 June 2009

¹⁴ The Obama Doctrine, Jeffrey Goldberg, The Atlantic, available at: <https://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/> April 2016

¹⁵ American Government, Openstax, available at: <https://openstax.org/books/american-government-3e/pages/17-4-approaches-to-foreign-policy> 2021

¹⁶ The Obama Doctrine, Jeffrey Goldberg, The Atlantic, available at: <https://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/> April 2016

¹⁷ America's Pacific Century, Hillary Clinton, Foreign Policy, available at: <https://foreignpolicy.com/2011/10/11/americas-pacific-century/> 11 October 2011

¹⁸ Ibid

Taking a back seat to Chancellor Merkel

In fact, if there was an international issue which the U.S. would prefer to “lead from behind”, it was the Greek crisis, as the structure of the eurozone could not justify a leadership role for the U.S. As Jack Lew, Treasury Secretary during President Obama’s second term, later put it, “our role was an interesting one. We were rarely in the room, but I’m told by people in the room (that) we were always in the room. So, you don’t have to physically be in the room to be part of the conversation”.¹⁹

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The U.S. viewed the European institutions as having the lead in the Greek programs, with the IMF playing a supporting role. Thus, its influence via the IMF was not always effective, even as at the height of the crisis, the U.S. administration would become too involved for some Europeans: In July 2015, Germany’s Finance Minister Wolfgang Schäuble brushed aside U.S. calls for less austerity and more debt relief by noting that the U.S. position in favour of Greek debt restructuring did not come with any financial cost or commitments, and half-jokingly offered to trade Greece for debt-ridden Puerto Rico with U.S. Treasury Secretary Lew.²⁰ Of course, the U.S. was entitled to express an opinion, as the biggest shareholder in the IMF, the institution that contributed its financial resources to the first two Greek programs, and to which the U.S. was offering direction while retaining its veto power.

... even in the instances when U.S. officials were most involved [...] the Obama administration’s public message was that it was Europe’s problem to solve.

In any case, even in the instances when U.S. officials were most involved in trying to influence the outcome of the Greek debt crisis, the Obama administration’s public message was that it was Europe’s problem to solve. And President Obama’s partnership and personal rapport with Chancellor Angela Merkel meant that, even when his administration disagreed with Germany’s positions, it would try to influence the decision-making behind closed doors, as it considered most public disagreements between them counterproductive.

President Obama sought to work with America’s allies to tackle global challenges, and the German Chancellor was his closest partner among world leaders. As his foreign policy advisor Ben Rhodes notes, Merkel had emerged as the dominant leader in Europe and worked “closely with Obama to respond to the global financial crisis and the instability in Europe that followed”.²¹ In his autobiography, writing about his final trip abroad, which included stops in Athens and Berlin, Obama fondly describes his final meeting as President with Merkel, and remembers thinking that she would have to face the world’s problems alone after he left office.

Hence, some of his decisions on foreign policy and on managing the eurozone debt crisis were taken in consultation with her. As mentioned earlier, her cautious approach may have contributed to Obama’s reluctance to follow through with his red line warning about the use of chemical weapons in Syria. This indecisiveness may also be explained by Obama’s inclination to try to achieve broader coalitions to tackle international problems. Yet the influence Obama and Merkel had over the other worked both ways. As the former President of the Eurogroup Jeroen Dijsselbloem describes in his book *The Euro Crisis: The Inside Story*, at the most critical moment in the Greek debt crisis (July 2015), when Greece was under capital controls and Wolfgang Schäuble advocated a Greek “time-out” from the eurozone during a dramatic meeting of European finance ministers, convinced that Angela

¹⁹ Interview with the author, June 2018.

²⁰ Schaeuble tells Lew he’d gladly swap Greece for Puerto Rico, Bloomberg, available at: <https://www.bloomberg.com/news/articles/2015-07-09/schaeuble-tells-lew-he-d-gladly-swap-greece-for-puerto-rico>, 9 July 2015

²¹ The World As It Is, Ben Rhodes, p. 231 2018

...it was a call from President Obama to the Chancellor, in which he described the bleak geopolitical risks Grexit would entail that changed her mind.

Merkel was on board, she changed course, allowing Greek PM Alexis Tsipras to perform his so-called somersault and enter a third funding program.²² Reportedly, Schäuble never learned what changed her mind. However, the Greek daily *Kathimerini* reported at the time that it was a call from President Obama to the Chancellor, in which he described the bleak geopolitical risks Grexit would entail, a report that Dijsselbloem would also confirm in his own book.²³

The Greek Crisis as a cause for U.S. Engagement in Europe

...the Obama administration became involved in Greece out of necessity rather than by choice; the U.S. wanted to help the eurozone manage a severe debt crisis.

In the early stages of the Greek debt crisis, the Obama administration became involved in Greece out of necessity rather than by choice; the U.S. wanted to help the eurozone manage a severe debt crisis that was undermining its currency and threatening the global financial system. Even though Greece did not register as a priority for Obama's economic or foreign policy to begin with, it became one when financial contagion threatened to unravel the eurozone. There were domestic political concerns to consider too, as the debt crisis undermined the prospects for the U.S. economy in two critical election years: 2010 and 2012. As a result, his top Treasury department officials invested a lot of their time in managing the Greek debt crisis, to ensure Greece would not default on its debt or leave the eurozone.

... despite his Asian pivot, President Obama did not stray far from the post-WWII tradition of American engagement in Europe.

However, there is also a consistent national security aspect to American involvement in the Greek debt crisis, which suggests that, despite his Asian pivot, President Obama did not stray far from the post-WWII tradition of American engagement in Europe. As early as 2010, U.S. involvement was deemed necessary to maintain geopolitical and economic stability in a country that had a direct bearing on U.S. interests. As one of the protagonists, Secretary Lew, put it, "the U.S. engagement did not come out of nowhere: The U.S. is often a kind of indispensable outsider in European conversations". As he argued, "beginning with the funding relationships of the Marshall Plan, in every important development in European affairs there has been U.S. engagement" and behind the scenes involvement.²⁴ According to Lew, U.S. involvement in Greece drew on this tradition of caring about the success of the European project. Speaking to the people of Greece before he left office, President Obama also noted that "European integration and the European Union remains one of the great economic and political achievements of human history".²⁵

In his own memoir, describing the first year of the Greek financial crisis, Obama put it in less idealistic terms: "We could not afford to be passive observers... Problems in Europe acted as a significant drag on the U.S. recovery. The European Union was our largest trading partner... and U.S. and European financial markets were practically joined at the hip". To be sure, during the two terms of the Obama presidency, the level of attention the U.S. administration paid the Greek debt crisis, and the prism through which it viewed it, varied. At the beginning and in the aftermath of the global financial crisis, the primary concern was for the U.S. economy to avoid a double dip recession.

²² Wolfgang Schaeuble, from Grexit to debt deal, *Eirini Chrysolora*, *Kathimerini*, available at: <https://www.ekathimerini.com/opinion/1228041/wolfgang-schaeuble-from-grexit-to-debt-deal/> 28 December 2023

²³ The Euro crisis: The inside story, Jeroen Dijsselbloem, 2018

²⁴ Interview with the author, June 2018

²⁵ Remarks by President Obama to the People of Greece, U.S. Embassy in Greece website, available at: <https://gr.usembassy.gov/remarks-president-obama-people-greece/> 21 November 2016

A financial concern: When the eurozone crisis reached America

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When it became clear that the eurozone would not provide enough support to end the financial speculation, the Obama administration decided the IMF should also be involved.

President Obama admits that “the situation in Europe hadn’t been keeping him up at night”, but that began to change in February 2010, when “a Greek sovereign crisis threatened to unravel the eurozone”. Given the dangers that he describes “as the equivalent of a lit stick of dynamite being tossed into a munitions factory” and the uncertain economic ramifications of Grexit, he notes that “out of nowhere, stabilizing Greece suddenly became one of our top economic and foreign policy priorities”.²⁶

Domestic considerations also weighed in, as 2010 was a midterm election year and any negative effect the eurozone crisis had on the U.S. economy could also have an adverse impact on the Democratic party and its effort to keep control of Congress. Obama remembers that in the spring of 2010, after more than a year of bad economic numbers, “we finally received a glimmer of hope” as a jobs report showed the economy gaining new jobs for the first time since 2007. But just as he was ready to declare “a Recovery Summer” during a nation-wide tour, Greece imploded and the recovery summer went bust.²⁷

Having admitted that its fiscal deficit was four times larger than reported, Greece faced the wrath of the financial markets and the rest of the eurozone. Unlike the European officials insisting on austerity as the only way to avoid default because they wanted to make an example of Greece as a warning to other struggling eurozone countries, the Obama administration was primarily concerned with the contagion risk. For its part, it stressed the need to move quickly to stabilize the situation and provide the financial support necessary, dispelling any speculation that any member state would be leaving the euro. In his book *Stress Test*, Timothy Geithner, U.S. Treasury Secretary in 2009–2013, labeled the European attitude toward Greece as “old testament”²⁸ justice.

As a former U.S. Treasury official relates, “we believed that robust intervention was needed and that their half-measures invited speculation that they would need to do more, and that in the process some people can make money”.²⁹ When it became clear that the eurozone would not provide enough support to end the financial speculation, the Obama administration decided the IMF should also be involved in the Greek stabilization process. In a wire back to Athens, a diplomat at the Greek embassy in Washington noted that a Treasury official had encouraged him to ask the IMF for the amount that was needed, however large that was.³⁰

Breaking IMF rules with the blessing of the U.S.

That spring, the U.S. helped put together a program unprecedented in the history of the IMF, and its biggest until then. The Obama administration not only encouraged the IMF to provide funding far in excess of Greece’s quota, it also urged it to forgo the haircut that the IMF would normally have asked for before committing its resources. Despite dissenting views within the administration warning that the Greek debt was not sustainable, Timothy Geithner, Treasury Secretary in President Obama’s first term in office, believed that the banking sector was still too vulnerable on both sides of the Atlantic for an upfront haircut on Greek debt. Consequently, the U.S. sided with the ECB—

²⁶ A Promised Land, Barack Obama, p. 529 2020

²⁷ Ibid, p. 525

²⁸ Stress Test, Timothy Geithner, 2014

²⁹ Interview with the author, 2017

³⁰ Troika: The road to disaster M. Ignatiou, p. 422-425 (in Greek)

and also with France and Germany, whose banks had the biggest exposure to Greek debt—in insisting on a program with no haircut.

At the same time, however, it became apparent that the Greek program would not be enough to avoid contagion. As a result, the U.S. began pushing for bold reforms to Europe's financial architecture to render it capable of withstanding the crisis, starting with the creation of the European Financial Stability Facility and later the European Stability Mechanism. When the French and German leaders surprised the markets by announcing from the sidelines of the Deauville G8 meeting (May 2011) that any future sovereign bailouts would also require losses from private creditors, U.S. Treasury Secretary Geithner warned his European counterparts that "all you will do is accelerate the run from Europe".³¹

From no haircut to Private Sector Engagement

...by July 2011 Geithner was supportive of the emerging plans to introduce Private Sector Involvement to complement a second Greek program.

Even though he had been against a debt restructuring in the first Greek program, by July 2011 Geithner was supportive of the emerging plans to introduce Private Sector Involvement to complement a second Greek program.³² This became possible as the eurozone was shoring up its defenses against the risk of contagion, but the danger of triggering a default event was still very high. Then, in a meeting of EU finance ministers in Poland, while U.S. Treasury Secretary Geithner was making the case for "a European Troubled Asset Relief Program (TARP)", which would help recapitalize European banks by buying toxic bonds off them, the German finance minister presented his Greek counterpart Evangelos Venizelos with another idea: that Greece temporarily exit the eurozone. The Greek minister scotched this suggestion on the spot and kept it secret, so as not to further rattle public confidence in Greece's prospects.³³

As the country was heading towards a new election (June 2012), a caretaker government [...] had to seek the help of the U.S. President to avoid capital controls.

A couple of private citizens in the U.S. played a key role in the Greek PSI. The key negotiator for Greece's private sector creditors was a former Treasury official, the International Finance Corporation president Charles Dallara. And that summer, Greece hired Lee Buchheit, a top legal expert on debt restructuring, who succeeded in securing a 53% haircut from Greece's private creditors without provoking a credit default incident.

In Greece, the PSI was eventually implemented by the caretaker government of former central bank governor Lucas Papademos, whose tenure was agreed by the Greek parliament following the implosion of the George Papandreou government in November 2011, after the Greek premier was forced by Greece's EU partners to withdraw his call for a referendum on the terms of a new Greek program. Although Papademos started rebuilding trust in Greek leadership, he had a limited mandate and stayed in power for a shorter period than Greece's creditors would have wanted. The general election that followed (May 2012) did not produce a government, raising concerns among the Greek public. As the country was heading towards a new election (June 2012), a caretaker government, this time led by the jurist Panagiotis Pikrammenos, had to seek the help of the U.S. President to avoid capital controls.

³¹ Draghi's ECB management: The leaked Geithner files, Financial Times, available at: <https://www.ft.com/content/5704c0bf-43de-3787-a981-dd1e952f8120> 11 November 2014

³² Versions of war 2009-2022, Evangelos Venizelos, 2022 (in Greek)

³³ Wolfgang Schaeuble, from Grexit to debt deal, Eirini Chrysolora, Kathimerini, available at: <https://www.ekathimerini.com/opinion/1228041/wolfgang-schaeuble-from-grexit-to-debt-deal/> 28 December 2023

Avoiding capital controls between elections

As Pikrammenos told the story at a public event in Athens on the role of the U.S. in the Greek debt crisis, he sent a letter to President Obama asking him to help Greece avoid capital controls before the elections. Indeed, as the lack of trust in banks and the country's future direction had led to withdrawals worth €1 billion (\$1.25 billion, or 0.5% of Greece's GDP) being made *daily*, a slow-burn bank run was in the offing. Nonetheless, some in Europe welcomed this prospect as a way of persuading Greek politicians to accept the terms of the new program.³⁴

Having chastised Greece for its profligacy, the press started paying attention to the social and political effects of the economic crisis that had engulfed Greece.

When, two days before the June 2012 election, Pikrammenos was informed that the ECB would stop providing Emergency Liquidity Assistance to Greek banks, he sent a letter to President Obama via the U.S. ambassador to Athens. The letter, which reportedly reached the President just before he boarded Air Force One on the way to a G20 Summit in Mexico, provided the U.S. administration with a clear picture of just how dire the situation had become. The strategy worked, and the ECB "miraculously" (as Pikrammenos put it) raised the ELA limit for Greece, making it possible for the election to take place without capital controls.³⁵ Yet even during this episode of intense communications with his European counterparts, U.S. Treasury Secretary Geithner kept underlining to the press that the Greek debt crisis was a problem for the Europeans to solve.

The June 2012 elections produced a coalition government headed by Antonis Samaras, leader of the conservative New Democracy party, but also sent shockwaves abroad with the rise of a neo-Nazi party. Having chastised Greece for its profligacy, the press started paying attention to the social and political effects of the economic crisis that had engulfed Greece. Even though the Samaras government tried to restore confidence in Greece, the emergence of leftist, anti-memorandum Syriza as the party with the largest share of the votes in the 2014 European Parliament elections challenged its political capital. At the time, the IMF had adopted an uncompromising stance, and nothing the Samaras government promised seemed to be enough for the creditors to conclude the stalled program review. The U.S. administration did not throw its weight behind the Greek side, either. By the end of the year, Greece's creditors had written the Samaras government off. An early election was called for January 2015, which Syriza was expected to win. Syriza's leader, Alexis Tsipras, had presented a sensible image when he visited the U.S. in January 2013, and the administration hoped that Syriza would become more pragmatic in power.

At the time, the IMF had adopted an uncompromising stance, and nothing the Samaras government promised seemed to be enough for the creditors.

Geopolitics as a key consideration for the U.S.

It quickly became clear, however, that the impasse with Greece's creditors was undermining the country's future direction. When Syriza began to seek funding from Russia and China, State Department officials expressed concerns internally about Greece's standing in the West, while in the White House, geopolitical arguments were gaining increasing weight in the thinking of the President's national security advisors. According to a former White House official, the Obama administration "really thought that the geopolitical trajectory of the country was at stake, as Russia was trying to increase its influence in the region".³⁶ The regional security situation had also deteriorated. In the

³⁴ The Endgame in Greece - How a bank run can be part of the solution, Jacob Funk Kirkegaard, Rhodium Group website, available at: <https://rhg.com/research/the-endgame-in-greece-how-a-bank-run-can-be-part-of-the-solution/> 16 May 2012

³⁵ The U.S. role in the Greek debt crisis, American College of Greece website, available at: <https://www.acg.edu/news-events/news/the-us-role-in-the-greek-debt-crisis/> 12 March 2019

³⁶ Interview with the author, 2018

aftermath of Islamic terrorist attacks in Europe, the importance of domestic security in Greece had become evident.

...the Obama administration "really thought that the geopolitical trajectory of the country was at stake, as Russia was trying to increase its influence in the region".

Thus began the final and most consequential episode in the United States engagement in the Greek debt crisis, in which it sought to secure Greece's future in the eurozone. At a point when most Europeans had become convinced that a Greek exit from the eurozone would have no economic repercussions for the rest of the block, the U.S. Treasury continued to argue that, albeit reduced, the risk of contagion from a Greek default and Eurozone exit was still there.³⁷ The 2015 refugee crisis also made it easier for the U.S. to argue for the geopolitical importance of a stable Greece within the eurozone: The White House noted the strategic imperative of stabilizing Greece, stressing the wider security risks of a Grexit for the region, while the refugee crisis underlined its argument that, due to its location, Greece was still an important strategic ally.

The 2015 refugee crisis also made it easier for the U.S. to argue for the geopolitical importance of a stable Greece within the eurozone.

By the summer of 2015, the U.S. was also convinced that, to stabilize Greece, further debt relief was needed. The U.S. position on PSI had become positive once the EU had built its institutional defenses, limiting the risk of financial contagion. And when the IMF finally decided to change course with new estimates for Greek debt sustainability that highlighted the need for an Official Sector Involvement, the Obama administration encouraged the IMF to publish its debt sustainability analysis for Greece to force the Europeans into action.³⁸

That was also the time when the U.S. broke with Germany over its hard line towards the government of Alexis Tsipras. In June 2015, as Greece was heading for a referendum on a new funding program amidst capital controls, a series of top U.S. officials communicated the need for a solution that would keep Greece in the eurozone. In the readout of a call between Obama and Merkel made after Tsipras' call for a referendum, the White House stressed that the two leaders agreed it was "critically important" to find ways to keep Greece in the eurozone.³⁹

...the Obama administration encouraged the IMF to publish its debt sustainability analysis for Greece to force the Europeans into action.

Helping Tsipras avoid Grexit

Off the record, the message of the U.S. administration was that a Grexit would have unpredictable strategic consequences, potentially threatening the entire European project, and resulting in a failed state at Europe's most vulnerable gateway. This message was delivered through many different channels in European capitals and in NATO, President Obama speaking to European leaders, and Treasury Secretary Lew with his counterparts. Even former president Bill Clinton was called in to informally advise Tsipras. At the last moment, Merkel was persuaded to keep Greece in the eurozone despite the Grexit plans drawn up by her finance minister.

None of this would have been possible had Tsipras not changed course. And it was U.S. Treasury Secretary Lee who, having developed a personal relationship with the Greek Prime Minister, advised him to change course and accept the terms of the third program. He also spelled out what was at stake to the Greek leader, as the Germans had made it clear that Greece would have to leave the Eurozone if he failed to agree to a new program. In fact, before the dramatic July 12 negotiations in Brussels, Lew advised the Greek Prime

³⁷ Based on multiple interviews with US and Greek officials in July 2015, before and after the Greek referendum

³⁸ Interventions by two U.S. Presidents, Katerina Sokou, Kathimerini, available in Greek at:

<https://www.kathimerini.gr/politics/825102/paremvaseis-dyo-amerikanon-proedron/> 26 July 2015

³⁹ Greek debt crisis: Obama and Merkel monitoring situation closely, The Guardian, available at: <https://www.theguardian.com/us-news/2015/jun/28/obama-merkel-talk-greek-debt-crisis> 28 June 2015

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during the last months of the Obama administration, [Secretary Lew] stressed the geopolitical argument and used the failed Turkish coup to make the case for Greek debt relief.

...it was the pragmatic consideration of economic and geopolitical dangers that caused the U.S. administration to expend so much effort on trying to contain the Greek debt crisis.

Minister not to leave the room until he had secured a new bailout, warning him that this was his last chance to keep Greece in the Eurozone.⁴⁰

All the while, Lew kept insisting on the need for debt relief. Even at the height of the crisis, in the run-up to the July 5 referendum, his message to Greece's creditors was that a solution should include a discussion of potential debt relief for Greece. And in the summer of 2016, during the last months of the Obama administration, Secretary Lew stressed the geopolitical argument and used the failed Turkish coup to make the case for Greek debt relief. As he told the *Financial Times*, he hoped the regional upheaval "would change the climate in which discussions of debt relief happen" noting that "at a time when Greece is in a position [of] geopolitical significance that's a good time to reinforce their fiscal future".⁴¹ However, he was not able to persuade his European counterparts to offer further debt relief, as the Greek government was no longer actively making the case for further debt relief and the IMF, who doubted the sustainability of Greek debt, had opted out of the program.

The Limitations of Leading from Behind

If a hybrid approach can best explain the foreign policy choices of the Obama presidency, it was the pragmatic consideration of economic and geopolitical dangers that caused the U.S. administration to expend so much effort on trying to contain the Greek debt crisis.

From 2010 to 2016, different financial, political, and geostrategic developments shaped the approach of the Obama administration to the policy dilemmas at hand. At the start of the Greek financial crisis, while Timothy Geithner was Secretary of the Treasury, the U.S. had a pragmatic approach that emphasised the cost of the Greek debt crisis to the eurozone, and hence to U.S. growth. That pragmatism led the U.S. to support an IMF program for Greece without the debt restructuring that would normally be needed, and at an amount much higher than the country's quotas in the international organization justified.

While the Greek debt crisis was predominantly a financial concern, with the Treasury leading the U.S. response to it, the White House was also focused from the very start of the crisis on the strategic interest of safeguarding Greece from collapse. Speaking of his time as Obama's chief of staff (2012–2013), Lew noted that "from the president's point of view and mine, Greece had been an important strategic partner of the U.S. for a long time, so having Greece collapse was not something that was in our strategic interest".⁴² The U.S. administration was also worried that a Greek default would lead to a breakup of the eurozone, with devastating geopolitical consequences for the region. As the Europeans' slow response failed to stop the crisis from spreading to other fragile economies, the Obama administration repeatedly made the case that the crisis had wider ramifications and pushed for a bolder approach to shore up the eurozone's defenses.

Depending on what was at stake at any given time, President Obama was an interventionist when the geopolitical stakes were highest, as in 2015 when he pushed Merkel to keep Greece in the eurozone to help secure the European project; a liberal internationalist when he joined the European Council meetings to tackle international issues, or when he supported bringing the IMF into the Greek bailout; and a pragmatist

⁴⁰ The last bluff, V. Dendrinou, E. Varvitsioti, 2019, p. 286-287 2019

⁴¹ Turkish turmoil strengthens case for Greek debt relief, says U.S., *Financial Times*, available at: <https://www.ft.com/content/97f8a4be-4e26-11e6-8172-e39ecd3b86fc> 20 July 2016

⁴² Interview with the author, June 2018

President Obama was an interventionist when the geopolitical stakes were highest, a liberal internationalist, when he supported bringing the IMF and a pragmatist when he left it to Germany to define the terms for the Greek bailouts.

The U.S. role in the Greek debt crisis also suggests that European fears that the Asian pivot would mean the U.S. showing less interest in Europe were overblown.

when he left it to Germany to define the terms for the Greek bailouts, or when he pushed the IMF not to ask for a debt restructuring before the first Greek program.

Contradicting the isolationist argument

The role the U.S. played in the Greek debt crisis contradicts the argument that President Obama was an isolationist president. If he were, he would not have spent so much effort trying to safeguard the eurozone and prevent Grexit. Although some Wall Street analysts and even Nobel laureates-economists were making the case that Grexit was inevitable, and/or that Greece would be better off leaving the Eurozone, this was never the view of the U.S. administration.⁴³ As Greek economists have argued, the underlying weaknesses of Greece's economy were unrelated to the nominal exchange rate, while the reforms needed to address these structural weaknesses would be harder to achieve outside the eurozone.⁴⁴

The U.S. role in the Greek debt crisis also suggests that European fears that the Asian pivot would mean the U.S. showing less interest in Europe were overblown. President Obama may have complained about the hand-holding his European allies seemed to need when dealing with their own problems, but he still invested significant political capital in helping Europe address them.⁴⁵ As Treasury Secretary Lew put it, in the case of the Greek debt crisis, the U.S. was an indispensable, interested and trusted outsider in European conversations.⁴⁶ In the summer of 2015, the message that Greece should stay in the eurozone was so well coordinated and insistent, that a German official asked his American counterparts to "stop calling" and that "they had received the message".⁴⁷

Similarly, if Obama were purely an internationalist, his administration would not have tried to influence the IMF vis-a-vis the size, terms and conditions of the Greek bailouts. He would not have pushed it to undertake the biggest program in its history in 2010, nor would he have asked the Europeans to increase the Emergency Liquidity Assistance to the Greek banks before the 2012 elections. His administration also supported the IMF in 2015, when the Fund finally argued that the Greek debt was sustainable, helping the U.S. make the call for debt relief.

At a time when the preferences of the governments of major European powers often guided the positions of the IMF, there were instances when Secretary Lew had limited political capital with the Fund.⁴⁸ And President Obama's inclination to "lead from behind" meant that, despite the U.S. Treasury's efforts to persuade the IMF to complete the final program review of 2014, the Fund's insistence on its own hard demands meant these efforts were unsuccessful, leading the way to Syriza's ascent to power.⁴⁹

⁴³ Does Greece need more austerity?, Paul Krugman, The New York Times, available at:

<https://archive.nytimes.com/krugman.blogs.nytimes.com/2015/06/19/does-greece-need-more-austerity/> 19 June 2015

⁴⁴ Why Grexit cannot save Greece, Chrysafis Iordanoglou and Manos Matsaganis, Centre for European Studies, Harvard University, March 2018, available at: <https://ces.fas.harvard.edu/uploads/files/Open-Forum-Cover-Why-Grexit-Cannot-Save-Greece.pdf>

⁴⁵ The Obama Doctrine, Jeffrey Goldberg, The Atlantic, available at: <https://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/> April 2016

⁴⁶ Interview with the author, June 2018

⁴⁷ Interview with the author, November 2018

⁴⁸ Tangled Governance, Randall Henning, 2017

⁴⁹ According to interviews with former Treasury officials in 2017, the U.S. administration tried hard to persuade the IMF to be more flexible in its requirements to complete the last program review of 2014. Prime Minister Samaras had also asked for the help of Secretary Lew in this regard, calling him at his home at Thanksgiving Day. However, the same sources note that the IMF, including its American Deputy Director David Lipton, insisted on supporting its staff. As a former official put it, "we did not have a tremendous amount of leverage with the IMF" at that time, while Secretary Lew wanted to preserve his political capital with the IMF for when he would really need it.

From Secretary Marshall to the Obama legacy

...the support the Obama administration provided as a trusted third-party mediator may not have included direct U.S. funding like the Marshall Plan, but it still proved critical safeguarding Greece's position in the eurozone.

The outside U.S. role in the Greek debt crisis supports the argument that President Obama followed a hybrid Realist-Liberal approach to international engagements that was not bound by any specific theory of international relations. Indeed, when laying out his foreign policy priorities before his election in 2007, he pointed to U.S. Secretary of State George Marshall's 1948 plan that used all elements of American power, not just its military might, to address the security challenges of his time. In making the case for ending the war in Iraq, he noted that he wanted to act with Marshall's purpose and pragmatism to address the challenges of the 21st century, and this required working with friends and allies.⁵⁰

For Greece, the support the Obama administration provided as a trusted third-party mediator may not have included direct U.S. funding like the Marshall Plan, but it still proved critical safeguarding Greece's position in the eurozone, and hence the West. The U.S. role was limited in the extent to which it helped alleviate the prescribed austerity or provide meaningful debt relief, as President Obama did not manage to change the mind of the Europeans, and particularly the Germans. Still, his interventions in 2010, 2012, and 2015 helped keep Greece in the eurozone, and in so doing made the U.S. far more popular in Greek public opinion.

In hindsight, the Greek debt crisis had a silver lining in that it also kickstarted a new phase in U.S.-Greece relations that have grown stronger ever since. A largely unintended consequence of the supportive role the U.S. played during the Greek debt crisis, it keeps on bearing fruit a decade later.

⁵⁰ Obama's foreign policy speech, The Guardian, available at: <https://www.theguardian.com/world/2008/jul/16/uselections2008.barackobama>, 16 July 2008