

Should Greece's huge debt be forgiven? Germany's was in 1953

By Associated Press, adapted by Newsela staff on 07.15.15

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Demonstrators gather near the Greek Parliament in Athens during a rally against the government's agreement with its creditors, July 14, 2015. Photo: AP Photo/Emilio Morenatti

LONDON — Forgiving debt can get a country back on its feet.

Greece has a lot of debt. Many countries have loaned it money. Greece now owes more than \$332 billion to other countries.

A new report argues that Greece should get help. The report was written by the International Monetary Fund (IMF), a large group of countries that lends money to nations when they need it. The report supports giving Greece a break on paying back some of its debt.

Germany has loaned Greece more money than any other country. It is resisting forgiving Greece's debt. Yet Germany knows what debt relief can do. After World War II, Germany got help with its debt from former enemies.

Who helped Germany then? Greece.

In The Case Of Germany

In 1953, Greece and about 20 other countries forgave many of Germany's loans and came up with other ways for the rest to be paid back. Germany recovered and its economy became strong.

So it might seem odd that Germany is resisting Greece's requests for help.

Here's a look at when Germany got debt relief, and if such action might help Greece.

The London Agreement of 1953 was generous to Germany. It cut the amount owed, and allowed Germany to pay the money back at low interest rates, and over a longer time.

The plan let Germany pay the money back when it was able to. Other countries bought German goods, which allowed Germany to have money to pay its debt.

Countries decided not to ask Germany to pay for the destruction it caused during the Second World War. Germany was able to borrow from other countries. It didn't have to pay all its debt. Soon Germany had money again.

Greece wants the same chance that was given to Germany.

The German debt forgiveness after World War II was driven by the United States. It wasn't charity, though.

A Similar Case For Greece?

Timothy Guinnane, a professor at Yale University, warns against making too many comparisons between Greece and Germany. He said Germany was much more important politically than Greece today. "The U.S. was basically the last man standing after the war," said Guinnane. The world was in chaos and the U.S. wanted Germany to be strong again to help stop the spread of communism to Western Europe from the Soviet Union and Eastern Europe.

Germany also had economic power then than Greece has now. It made many goods and sold them to other countries. However, Greece doesn't produce much, which is one reason why Germany is insisting on reforms to make Greece more competitive economically.

Still, there are echoes from the German case that are similar to Greece's situation today.

The deal to help Germany was based on a realistic way for the country to pay its debts. Unlike Germany, Greece has had to pay its debt even though it has not had enough money because its economy is in bad shape.

Germany's deal after World War II also admitted that mistakes were made after World War I. Germany was punished economically by the countries that won World War I, which allowed extremist groups like the Nazis to become popular by saying that Germany was treated badly. In Greece, extremist parties, including a group inspired by the Nazis, have been on the rise.

Greece and the European countries that lent it money are in disagreement over what to do about the country's debts. It's difficult for them to take less money than what they are owed.

Giving Greece "Breathing Space"

But now there are signs of movement. On Sunday, European countries will meet to talk about Greece's new plan to fix its economy and pay some of its debts.

The country of Cyprus has said it could consider canceling \$370 million that Greece owes it. The U.S. supports debt relief for Greece.

The IMF report argued that Greece needs more than \$67 billion between now and 2019. Given the recent economic shock, Greece's needs will likely be even higher.

The report blamed Greece's government for being slow on reforms, but said it was clear the debt needed to be made more manageable.

One option the IMF mentioned was allowing Greece 20 years before it would have to start paying back its loans to European Union countries. Then Greece would have 40 years to repay the loans in full.

"Greece needs a sort of breathing space," one IMF official said.

Quiz

- 1 According to the article, which answer choice BEST describes the International Monetary Fund's response to Greece's debt crisis?
- (A) punitive and harsh
 - (B) practical and sympathetic
 - (C) frustrated and defensive
 - (D) forgiving and friendly
- 2 Which of the following answer choices describes the main similarity between Greece and Germany?
- (A) Both have lost major world wars.
 - (B) Both have benefited from massive debt reduction.
 - (C) Both are economic powers that produce many goods for purchase by other countries.
 - (D) Both have experienced major debt problems and have requested relief and support.

- 3 Read the following sentence from the section "A Similar Case For Greece?"

"The U.S. was basically the last man standing after the war," said Guinnane. The world was in chaos and the U.S. wanted Germany to be strong again to help stop the spread of communism to Western Europe from the Soviet Union and Eastern Europe.

Which answer choice BEST describes the meaning of "last man standing" as it is used in the sentence above?

- (A) in need of population growth
- (B) in the best political position
- (C) in major economic trouble
- (D) in support of global collaboration

4

Select the sentence from the section "Giving Greece Breathing Space" that BEST helps explain the meaning of the phrase "breathing space" in the context of the article.

- (A) On Sunday, European countries will meet to talk about Greece's new plan to fix its economy and pay some of its debts.
- (B) The country of Cyprus has said it could consider canceling \$370 million in rescue loans to Greece.
- (C) The report blamed Greece's government for being slow on reforms, but said it was clear the debt needed to be made more manageable.
- (D) One option the IMF mentioned was allowing Greece 20 years before it would have to start paying back its loans to European Union countries.

Answer Key

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