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The Greek Debt Crisis and Potential Implications for other Sovereign Nations

by

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Abstract

At least four countries in the Eurozone are in poor economic shape, and Greece has already defaulted on its loans, sending the country into a state of disarray while it works on implementing fiscal austerity measures. Meanwhile, Portugal, Ireland, and Spain are next in line for a possible default. Using Portugal, Ireland, Greece, and Spain as examples of countries that are on the verge of economic collapse, this paper contains an analysis of what other countries need to do in order to avoid this situation.

Introduction

The Eurozone consists of 17 member countries, of which several are struggling economically. Greece has defaulted on its loans, while Portugal, Ireland, and Spain could be inevitable. All are struggling economically, and each country is handling the situation differently. If these nations don't alter their current economic conditions by decreasing their debt to GDP ratio and their deficits, then we could possibly bear witness to the breakup of the eurozone and the collapse of the euro as a currency. Portugal's Prime Minister has already resigned from his post, which could be the first of many dominos to fall. Countries in the European Union need to act quickly by raising retirement ages, cutting public spending, and trying to increase government revenue through tuition increases and marginal tax rate reductions. If this does not happen, it would have serious consequences for the global economy. The head of the European Trade Union Commission has declared that we could be heading for a second Great Depression unless serious economic changes are put into place. (Philips, 2010)

This paper will outline the unique debt load and economic situations of Portugal, Greece, Italy, and Spain, including what led each of them to be where they are today. It will discuss what each country needs to do in order to improve its economy, and the potential consequences that could result from these countries not taking the necessary steps. Last, there will be a discussion of what other countries with high debt loads need to do in order to avoid the potential dangers of defaulting on loans or asking for a bailout, along with an outline of the debt level at which countries should draw the line and start taking action to reduce their deficit.

Greece

From 2000 to 2007, Greece had one of the fastest growing economies; it had an expansion of 4.2%. A strengthening economy and falling bond yields resulted in the company running large structural deficits. It has long been a policy of Greece (since about 1974, as a result of the restoration of democracy to the country) to run large deficits in certain financial sectors, such as pensions and other social benefits. As a result, the ratio of debt to GDP has been over 100% since 1993.

Bradley Muir of ABC News declares that, "For more than a generation, Greece has been lax over its spending, paying out salaries on the government dime, with huge holiday bonuses."(Muir, 2010) Many employees were paid as though they'd worked a substantial amount more than they had, which led to early retirement for many Greeks. Upon realizing that economic crisis was imminent, Greece raised the retirement age to 65 to reduce their pension payments; France is now considering something similar in raising their retirement age from 60 to 62, and Spain has already raised theirs from 65 to 67. Though Greece is in a more extreme economic situation than France or Spain, it still has a retirement age similar to both of them.

After the introduction of the euro, Greece was able to borrow more readily, since their government bonds commanded a lower interest rate. Shortly thereafter, they were directly affected by the "global financial crisis" in 2008. They had their revenues from tourism (one of their largest financial sectors) plummet 10.6% in 2009 and 7% in 2010. (Maritime Sun News, 2011) This clearly impacted their ability to pay back the loans that they defaulted on in May of 2010, although they had admittedly already started heading down their economic path.

Since 2001, Greece had been paying a number of banks, including Goldman Sachs, hundreds of millions dollars worth of bank fees in order to ensure that they would help hide the actual amount of debt they were in. This was done so that Greece could continue borrowing and spending when they couldn't actually afford it, and do so while hiding this from the European Union.

Upon election of the new government in 2009, Greece announced its actual annual deficit was up to 12.7%, which is more than twice the amount previously reported (6%). (Blodget, 2010) Tax evasion from Greek citizens costs the government over $20 billion each year (Moffett & Granitsas, 2010), which is a huge contributor to the debt that Greece is currently struggling with. Citizens didn't pay their taxes and then would retire as early as age 58 at the government's expense.

Since the discovery that Greece's debt level was double the number previously reported, Greece has implemented several austerity measures, in addition to receiving a loan from the IMF after the declaration that they would be unable to pay back their loans. On March 5, 2010, Greece passed the Economy Protection Bill, which is expected to save about 5 billion euro. (Reuters, 2010) About a month afterwards, the government officially requested a bailout from the IMF. They have received about 45 billion euro and will be receiving a total of 110 billion at an interest rate of 5%. Greece has since agreed to impose a final level of austerity which includes the following: limiting the public sector bi-annual bonus to €1000 and abolishing entirely for those earning over €3,000 a month; cutting public sector allowances by 8% and the DEKO (public sector utilities) by 3% for employees, and abolishing for pensioners receiving over €2,500 a month; return of a special tax on high pensions; increasing VAT to 23%, 11% and

5.5%; 10% rise in luxury taxes and taxes on alcohol, cigarettes, and fuel equalization of men's and women's pension age limits; a financial stability fund has been created; increasing retirement age for public sector workers from 61 to 65, reducing public-owned companies from 6,000 to 2,000. (Department of Labor Newsroom, 2010)

On May 9, 2010, the European Union agreed upon creating the European Financial Stability Facility, which is designed to help eurozone states that are in financial duress. The European Investment Bank provides support and administrative support to the Facility. The Economist states that Greece will have to drastically alter its economic policy from one of large amounts of public spending in order to "[buy] social peace and votes with public spending, generous pensions, tax breaks, EU money and jobs for life," to one of economic stability. (Charlemagne: 2010) The National claims that in order for this to happen, "eventually…currency union economies must embrace a common fiscal policy as well as a shared monetary regime." (Glain, 2010) This would result in Greece and other countries losing control over their current domestic fiscal policy, in addition to the foreign exchange policy sacrifices they made when switching to a common currency.

Greece has instituted an austerity program, which some people (namely the European Trade Union Federation) are claiming will "result in even more unemployment." Some have suggested that Greece attempt to run a trade surplus, which would increase the value of their currency, and thus increase the relative value of the goods they export. However, since so many neighboring countries use the euro, this doesn't seem to be a viable option. Critics also state that the austerity policy is really just an exchange for European funding, which results in lower borrowing costs for Greece. It has also been said that the European Union was far too slow in

helping Greece and should reward their government's honesty about the debt situation. An alternative to the bailout plan, as suggested by the University of Frankfurt in Germany, is that Greece could exit the European Union.

International credit rating agencies have been under worldwide scrutiny following accusations that they take too much time to react to countries that are in financial trouble, and also that they sometimes give generous ratings due to conflicts of interest. Evidently, Greek bonds were trading at "junk" status several weeks before the rating agencies actually labeled them as junk. Germany's foreign minister ended up suggesting that the European Union should create its own rating agency since recent downgrades of Portugal and Greece had created some market issues.

Since the austerity programs have been established and the European Financial Stability Facility has been created, the European Commissioner for Economic and Financial Affairs has still recommended that there be necessary budget cuts in Spain and Portugal. A representative from Morgan Stanley has warned that a double dip recession is still possible (Morgan Stanley, 2010), and that whenever there is a period of recovery from economic crises, the economy is extremely vulnerable during that period. After the issue of the Greek economic crisis spreading subsided, the euro climbed to an 18 month high, but then plummeted to a 4 year low almost a week later.

The Economist also believes that the crisis is Europe-wide and cannot be reduced simply to Greece, or Greece, Spain, and Portugal. Evidently it is in Germany's best interest to stem the flow of Greece's debt and that it is not an act of "charity." (The Economist, 2011) Europe's

policymakers need to declare that they are going to help Greece out of their current financial trouble, and also decide to take preliminary action towards helping other countries who are in danger of bankruptcy: Portugal in particular. Without preliminary action, it becomes too late for the countries to correct their issues, and then the bailout has failed before it ever happened.

Ireland

Though much of the focus is on Greece, Ireland had the European Union region's largest deficit last year, at 14.3% of GDP, while the European Union debt limit is 3%. According to Business Insider, the collapse in the economy is mostly due to a large increase in private sector debts. (Business Insider, 2010) In addition, the Irish government has been participating in bailouts for its banking sector, which has left it in a sovereign debt crisis. It is also argued that Ireland has reached this point because of a property bubble that popped in 2007. The economy had been expanding rapidly for over 10 years because of its low interest rates and corporate tax rates. However, over the course of 2008, the ISEQ 20 index fell from 1500 points to just under 300. The ISEQ 20 index consists of companies that have the highest trading volume and market capitalization. The market was started in 2004 with a base of 1000 points.

According to the Central Statistics Office, Ireland was the first state in the Eurozone to enter a recession, as declared in 2008. During 2008, government deficits began to increase, unemployment began to rise, many businesses closed, and the ISEQ (Irish Stock Index) fell. In January 2009, Ireland had its number of citizens receiving unemployment reach 11.4%, or 326000 workers, which is the largest number since 1967, when they began keeping records. In 2009, the Economic and Social Research Institute stated that there would be an economic contraction in Ireland of 14% by 2010, based on a number of factors, including the fact that GDP

was down 8.5% from one year ago in the first quarter of 2009. According to the CIA's World Factbook of 2010, Ireland has a public debt of 98% of their GDP. In November 2010, Ireland's cost of borrowing rose to 7%, along with Portugal's, which is more than double Great Britain's. This rate of borrowing was rather unsustainable and was due to the market's lack of confidence in their economies.

Ireland has outlined an austerity program it plans to cut the minimum wage by one euro per hour, raise the sales tax, and cut government payrolls. However, its corporate tax will remain at its relatively low 12.5%, which is less than half the average for other countries in the EU. The next lowest corporate tax rate in Europe is 19% in Slovakia, and then 25% in Slovenia. Italy and Germany have the highest in the EU, and they are both over 37%. (Taft, 2010)

This corporate tax rate has been a staple of their economy, and has helped drive over 1000 multinational corporations to Ireland instead of other nations in the EU. Some say that Ireland should not raise its taxes, and that this will only serve to further weaken the economy, as high tax rates will discourage spending, work effort, and investment. If they do so, many say that it will encourage tax evasion and avoidance. (Saxton, 1996) One example of this sentiment comes from former US president Ronald Reagan. During his time he implemented tax cuts from 1981 to 1989 that actually raised the amount of tax revenue collected by over 200 billion dollars. In 1993, president Bill Clinton actually implemented a higher tax rate, which served to lower the amount of tax revenue collected from the nation's top 1% of income generators. In fact, Clinton's Council of Economic Advisors bluntly stated in 2004 that "it is undeniable that the sharp reduction in taxes in the early 1980s was a strong impetus to economic growth." (Saxton, 1996) This strategy could be applied to Ireland's economy as well, but instead they are doing the

opposite. "Ireland needs a strategy for growth, but this plan will achieve the opposite," says Jack O'Connor, president of Ireland's SIPTU union, which is the largest in the nation. Ireland will also be cutting 24750 state jobs, which could weaken the economy as well. However, although most EU nations may not agree, Ireland's 12.5% corporate tax has been a staple of their economy for quite some time and increasing this rate could serve to deter companies from doing business in their country. (CBS News, 2011)

The Irish have also proposed a raise in their retirement age from 66 to 68, which would lower government spending, albeit at the expense of their citizens' happiness. However, if their government defaults and their economy plummets into a state of disarray the likes of which they haven't seen in quite some time, it is likely that their citizens would be much more unhappy than if they have to work an extra few years to keep the economy from being in shambles. Pointing out that the average Irish work week is 39 hours per week with a maximum of 48 hours per week is rather important to mention. I would propose that they raise each of these by 5 hours per week to further stimulate the economy. If the Irish enter the work force at approximately age 18 and work an extra 5 hours per week until they are 68, this will be the equivalent of raising the retirement age by 6 years, in terms of hours worked.

While some argue that cutting the minimum wage is a terrible idea (Krugman, 2009), Labour Party leader Brian Cowen defends the cut by stating that it will create "flexibility within the economy," and that Ireland maintains one of the highest minimum wages in the EU. According to a study conducted by the Minimum Wage Study Commission of the USA, an increase in the minimum wage by 10% leads to a 2% drop in teenage employment. Since Ireland

still maintains one of the highest minimum wages of the EU, it doesn't seem that the effect will be too radical, except that it may increase employment.

Irish Finance Minister Brian Lenihan describes public-sector payrolls, the public wage bill, and social welfare as "key drivers of expenditure" and states that they "have to be curtailed." (Shah, 2011) Reducing pay for new public-sector workers by 10% is an excellent start, as is shaving 1.2 billion euros from its public wage bill. Spending on social welfare will be reduced by 3 billion dollars, which is also a good way to reduce their debt. In addition, they've planned to raise the cost of the tuition for students to about 7000 euros per year, nearly double its current level. Though students claim that this would lead to "crippling levels of debt" for them, this will be a good way for the government to raise revenue.

Overall, it seems that the Irish are at least partially on the right track. Their plan for taxes could be described as questionable at best, with their corporate tax rate holding strong at 12.5% and everything else being raised. This may weaken the economy overall and actually decrease government revenue in the process. They've proposed a retirement age increase of 2 years, but have carefully avoided the issue of increasing the number of hours worked per week from 39 to 44, which would also help to increase revenues. The question is, why are they not raising the retirement age by more than 2 years? With a deficit of 14% of GDP, they have the highest debt level in the EU, and yet are raising the retirement age only two years. Irish social security expenditures represent 11.2% of their GDP, which is a significant portion. (NationMaster, 2011) They have agreed to cut spending in many ways, which is one perfect step for them to take toward getting out of their economic situation.

Spain

Spain is in similar economic shape to both Ireland and Greece, with an economic debt level of 11.2%, over 8% greater than the European Union limit. Since January 2008, the IBEX, Spain's main stock market index, has declined from about 15000 to 11000, with the index dipping as low as 7000 in February 2009, and a decline of 3.44% in the last year. (Spain Stock Market Index, 2010) 34 companies make up the index, which supposedly provide Spain's most liquid stocks, and the selections are reviewed semiannually by the Technical Advisory Committee. Industries that make up the index include engineering, construction, renewable energy, insurance, banking, electronics/software, telecommunications, and petrol. The IMF has stated that Spain's recovery from its current crisis is likely to be "weak and fragile," but also went on to describe Spain's banking sector as "sound," though "under pressure." (BBC News, 2011) With a bailout looming, Spain will have to make some adjustments in order to stay economically competitive.

Zapatero has promised to reduce government deficits to the 3% required by the EU by 2012, but the "Popular Party" of Spain has declared that he lacks a coherent economic plan and states "There is no tax increase capable of filling the hole that you have created." (Brand, 2010) This statement is a response to Zapatero claiming that he will cut government spending by 4.5% and raising taxes, but keeping income taxes stagnant. Greece has already been given 110 billion euro from the IMF (International Monetary Fund) and the European Union, and a 750 billion euro rescue plan has been announced. However, the IMF and the EU, particularly Germany, want Spain to further push its austerity measures, which they seem reluctant to do. The Socialist

prime minister, Zapatero, has to find a way to follow through on his word that he will cut 15 billion euro from the budget deficits.

Another important facet of Zapatero's leadership is that unemployment is at 20.33% as of January 2011, the highest rate in the EU. According to the Economist, Zapatero looks "out of his depth." He has carried out giving public money and raising public sector wages with pensions while ignoring the impending crisis. In fact, as late as April 2010, the prime minister declared "I don't think there is any reason whatsoever for saying [that Spain is having trouble handling its debt and reining in government spending], the important thing is the economic indicators we have show there is economic recovery and growth." The Economist contends, however, that the government is reacting with "fumbling confusion," and that that they are "abruptly" using an austerity plan with a "vague scheme" for labor market reform. Spain's economic boom of the 80s relied on a steep increase in domestic demand and industrial output. Low interest rates from the euro followed this boom, and kept the economy in a state of growth for quite some time. Wage indexation has made businesses uncompetitive, while severance arrangements have made it much more unlikely for firms to hire new workers. As a result, the workforce is stratified into a labor market with two tiers, with an unemployment rate of over 20%. (The Economist, 2010)

Spain has outlined austerity measures of raising the retirement age from 65 to 67 and cutting 50 million euro from the budget by 2013. Though raising the retirement age by 2 years is an excellent start to their austerity promises, there is still the matter of the Spanish work week to consider. Every day, shops and businesses close for approximately 3 hours starting at 1 PM. Tourists claim that it is nearly impossible to buy anything or otherwise contribute to the economy in any way during the times of 1 PM to 4 PM. This in itself would not be a huge

problem if the Spanish worked a reasonable number of hours per week, but the legal maximum is 40, with most people working between 36 to 38. Working between 41 and 43 hours per week seems much more manageable for their economy, while still not overworking anyone, especially compared to the rest of the European Union, which has an average work week of 42 hours. (Working Hours, 2011)

Part of Zapatero's plan to cut 15 billion euro from the national deficit over the next two years includes a 5% cut to public sector salaries, including a 15% cut of his own salary and those of his senior cabinet members. However, in the face of Ireland's slashing of public sector wages by 10%, Spain's 5% cut seems a bit half-hearted. Spain is also planning to raise the minimum wage by 1.3%, which is substantially less than Ireland and still below the inflation rate of about 2.3%. This rise in minimum wage seems to be conservative enough to be supported by the economy, but not raising it at all would help the unemployment rate even more. In addition, there seems to be no mention of Spain raising tuition rates for students, which are still incredibly inexpensive, especially when compared with a country such as the United States. The University of Granada, a public university in Spain, has a total enrollment of approximately 45,000 students, and costs each student between 0 and $1000 per year for total tuition. If a post graduate student wishes to attend, then tuition increase to between $1000 and $2500. The University of Granada is consistently ranked as a top 10 university in Spain. To attend a top 10 university in the United States, it would cost between $36000 and $43000 per year. (US News and World Report National University Rankings) If Spain increased tuition to even half of what the USA is charging for tuition, then they would increase government revenue by a substantial amount. Spain's spending on education represents 4.2% of their GDP, and increasing the amount of money that tuition costs will reduce that expenditure. (Economy Watch, 2005)

Spain seems to be unwilling to make too many drastic changes, and it appears as though Zapatero is afraid to upset the citizens of Spain too much with any radical reforms of their current lifestyle. However, the longer they wait, the more the tension will grow until more extreme measures have to be put into place. Compared to Ireland and Greece, Spain has a slightly lower level ratio of debt to GDP (11.4% compared to 14.3% and 15.9%, respectively), but is doing much less in the way of preventing further economic damage. It seems to be a bit of a stretch when Spain declares that lowering the public sector wages by 5% and not increasing tuition or the number of hours worked per week will help lower the debt level by a substantial amount, when Ireland and Greece are arguably doing much more. Despite the fact that Greece and Ireland are doing more, Spain is taking some steps to correct their situation. Keeping the minimum wage essentially where it is and not raising income taxes is a sound economic approach when it comes to raising employment and increasing tax revenue. If they combined these moves with other less conservative moves, then their results could be much more drastic.

Italy and Portugal

Aside from Ireland, Greece, and Spain, there are a few countries that are teetering on the brink of economic collapse in the EU. Italy has a government deficit of 12.0%, higher than Spain's, and its GDP has diminished by 6.5% since 2008. Italy has refrained from overhauling its economy with a stimulus plan similar to Greece and Ireland; in doing so, it prolongs its balance sheet's nice appearance, but the nation is becoming more and more economically uncompetitive.

Italy's workers have some of the most protected jobs in the world, with employees that are, for the most part, unable to be fired. Because of this, there is increased pressure on officially

unemployed citizens to find work. As a result, the black labor market is up to about 30% of the Italian economy, while Spain's is at less than 20%. The labor laws of Italy have created a decidedly two tiered society, in which its employed citizens are comfortable in the jobs that they are extremely unlikely to lose, while the "unemployed" citizens either find work in the black labor market or have short term contracts that are continually renewed, which creates very little job security. The end result of this is that there is very little motivation for workers with such high levels of job security, and the black labor market contributes nothing to the government from taxation. An economist at a UN Conference on Trade and Development remarks that "there's no proper unemployment insurance, except in the big firms." (Faris, 2010)

Marco Annunziata, the chief economist for UniCredit, which is Italy's largest bank, believes that the economy is in a "slow bleed," which is "hardly felt, but happens nonetheless." He goes on to state that "the wealth is starting to run out" and that there will soon be a "gradual erosion of living standards." The longer Italy puts off the impending economic reform, the worst off it will be when it finally decides to take severe corrective action. Its economy has been stagnant for the past decade, losing about 9% of GDP during that time. This decline represents the "slow bleed" that Annunziata refers to. Italy is merely prolonging the inevitable by avoiding an economic stimulus package; what they need is to act quickly and correctly, taking note of what is happening in Greece, Spain, and Ireland. Raising the retirement age from 57 to 58 in 2007, though arguably an effort, was not substantial enough to stave off economic troubles, and they have since announced plans to have the retirement age raised to 65 for both men and women by 2012. If they also raised the number of hours worked per week from 40 to 45 and eliminated the negotiation of private sector collective bargaining for a minimum wage, then they would be on the road to recovery. (Mackenzie, 2011)

A Portuguese article written on March 23rd 2011 titled "Portugal may collapse before EU summit," stated that Portugal's parliament is expected to reject a move for austerity measures, and that Portugal's prime minister Jose Socrates would resign if this happened. An article written on that same day was titled "Portugal's Prime Minister resigns." The Prime Minister's frustration came to a head when the rejection surfaced, stating that the rejection would "force the debt-laden country to follow Greece and Ireland and seek an international bailout." (The Economic Collapse, 2010) Citizens of Portugal resent the idea of an austerity program because it would lead to lower wages, higher taxes, and a declaration that the country is in a recession. In fact, there have been large protests against an austerity program, and the train operators went on strike on the 23rd to demand higher wages. The resignation of the prime minister came at a rather unfortunate time, as debt repayment deadlines are approaching and Portugal needs to rely on the confidence of markets.

While Portugal's Prime Minister has officially resigned, the country cannot legally hold another election for at least 55 days. It seems that there will be a period of inaction during that time, since the government that has turned in a resignation has limited powers and is essentially there as a figurehead. As of now, without a bailout, and without austerity measures in place, it seems that default is imminent. Portugal's bond rating was cut from A- to BBB on March 25, 2011, with a provision warning that if talks of a bailout do not go well, then the rating will be cut even further. Meanwhile, the 10-year Portuguese bonds have reached a yield of 7.78% as of March 25, 2011, which is the highest it has been since Portugal joined the euro. Portuguese authorities are addressing this by publicly stating that they cannot afford to pay that kind of interest, and yet it seems that Portugal will be issuing new bonds by early summer of 2011. The cost of bailing out Portugal has been estimated at about 70 billion euro, and although Portugal

appears to be closer to needing a bailout than Spain, the cost of saving Spain would total 1.1 trillion euro, according to the Wall Street Journal.

Portugal is making some enigmatic decisions in the face of such economic woes. They have rejected all austerity measures, and essentially forced the prime minister out of office in doing so. The nation may not realize the implications of defaulting, or perhaps they are expecting a bailout before it comes to that, though the European Union can't continue coming up with bailout after bailout indefinitely. Perhaps Portugal would like to be guaranteed some money before the EU declares that it can no longer bail out countries. Opposition to austerity continues to rise, as protests grow larger and the old government plays caretaker.

Economic Plan

Outlining a general economic plan for those countries at a dangerously high debt load seems like a good option, since so any of them are at such a high level. The National Bureau of Economic Research states that nations see their economic growth slow down when their debt levels reach 90 percent of GDP. Average growth rate for GDP slowed from 3.4% to 1.7% when countries reach the 90% threshold, compared to the 60%-90% range. (National Bureau of Economic Research, 2009) These numbers are important to consider for countries struggling economically, because it is often thought that spending more money is a way to help the economy and increase the growth rate of GDP. For countries already above the 90% debt level, this is not the case. This trend appears to be about the same for emerging countries and developed/advanced countries. Emerging countries' growth rates slowed by about 2%, versus a 1.7% decline in advanced countries. There does appear to be a significant difference when it comes to inflation as it relates to debt as a percentage of GDP. As debt levels approach 90% for

emerging nations, median inflation approaches 16.5% from 6%. Though inflation is not necessarily a problem for those developed nations with high debt levels, a slow GDP growth rate certainly is.

All the countries discussed previously have an external debt level higher than 100% of their GDP as of 2010, according to the CIA's World Factbook. There are no numbers yet released for 2011, but it seems clear that these numbers will be at least as high as in the previous year, if not higher. Spain has an external debt of 2.41 trillion US dollars, which is 176% of their GDP, while Italy has a 141.3% external debt level, and Portugal has a 231.2% level of external debt. Meanwhile, Greece is only at 167.2%, while Ireland is reportedly at a significantly higher 1305%. These countries are currently dealing with an economic growth rate that is much lower than it would be if their debt levels were lower than the recommended threshold. We've outlined what these countries should be doing financially in order to decrease their debt to a level where they can experience a growth rate of GDP that will make their economy more stable. (CNBC News, 2010)

However, there are many more nations that are economically troubled and have a debt level that is bordering on the recommended threshold of 90%. The United States currently has a level of 95%, while Ukraine is exactly at 90% and Croatia is at 94%. Canada's debt level of 75% isn't immediately seen as a problem, but unless they are employing strategies that will help them maintain their current level, it could quickly become an issue. Financially speaking, there are many things that could or arguably should be done by these countries, but the countries will certainly meet resistance from their citizens if there are talks of raising the retirement age or increasing the number of hours worked per week. Portugal's citizens held protests in the street

and train drivers went on strike when there were talks of reform, and their country is on the verge of collapse.

There are several things that could be done to stimulate the economy that would be met with relatively less resistance than raising the retirement age and increasing the number of hours per work week. The first move would be to reduce or eliminate the minimum wage. This would have a positive effect on employment and the poverty level, though it would undoubtedly be tough for those who are currently working at the minimum wage level. Additionally, raising taxes seems to be a common theme among countries that are in poor economic shape, but evidence shows that raising the marginal tax rate actually reduces the amount of tax revenue generated by the government and greatly affects small business owners, which account for about 70% of new jobs in the United States. If countries on the verge of the danger level of debt to GDP ratio cut marginal tax rates, it would stimulate the economy and allow businesses to hire more new workers. However, about 50% of Americans are opposed to this sort of fiscal change.

Despite the disputes that arise from economic stimulus and fiscal austerity plans, there are a few things that would be fiscally irresponsible not to undertake. For countries like the United States, Croatia, and Ukraine, raising the retirement age is important to lowering their debt levels to between the target range of 60-90%. The retirement age is of particular significance because the United States will be seeing a disproportionately large number of people retiring in the coming years because of the "baby boom" effect of the 1950's. In a time where cutting public sector spending is an increasingly wise choice, the idea of dishing out pensions to a hugely increased number of retirees is not ideal. Raising the retirement age would keep a large number of people in the work force and contributing to the economy for a few years longer.

Though these nations are only on the border of economic disaster, they are certainly heading down a dangerous road, which could be avoided with the help of a few simple economic changes, including a new retirement age.

However, nearly every economic stimulus plan is disputed because it would detract from the overall quality of life of the nation. Countries like Greece have spent the last fifty years building an unsustainable quality of life. Until 2007, Greece's retirement age was 57, which they then realized had to be changed, much to the chagrin of Greece's citizens. Meanwhile, France and Italy have had protests as well, as a result of their retirement age increases. These protests illustrate an interesting juxtaposition between what countries need to do in order to ensure financial stability, and what the citizens want to do. At what point is financial stability no longer worth the associated costs relating to quality of life? It would seem that fiscal austerity plans, which are financially responsible, are not necessarily socially desirable or even acceptable to most people in the country where the plans are being implemented.

Much of the European Union is on the verge of collapse, and though there are certain austerity measures being taken to improve their situation, it's clear that many more things need to be done if the EU is going to become financially stable once more. Retirement ages must be raised, work weeks need to be longer, minimum wages should be reconsidered, and marginal tax rates should be cut in order to increase government revenue. Of the countries that are in serious economic trouble (Spain, Italy, Portugal, Ireland, and Greece), it would appear that Ireland is doing the best job of implementing financial austerity programs in order to bring stability back to the nation. Their low corporate tax rate should promote business coupled with lowering the

minimum wage and raising the retirement age should provide at least some of the improvement that the Irish desperately need.

Meanwhile, there are several countries that are near or over the “danger” level of debt to GDP ratio, and if there are no corrective actions put into place, then these countries could easily find themselves in the same boat as the European Union. There are many options for fiscal austerity measures, and if these countries started off by implementing just one, then they could gauge their rate of improvement from there. For instance, if the United States cut the marginal tax rate and lowered the minimum wage, then that could have all the effect that’s necessary to maintain our current lifestyle. Countries in the EU, however, don’t have the luxury of being able to experiment in such a way. Though their citizens may be unhappy with the change they’re facing, there’s no other viable option for them. It’s either change their current way of life or face the consequences of defaulting and perhaps entering into an acute financial crisis.

Potential Consequences

If countries such as Spain or Portugal do actually default and require a huge bailout from the European Union, many analysts believe that it could spell the end of the eurozone. Additionally, the EU chief warned, in what some referred to as an "apocalyptic" scenario, that bailouts of multiple countries in the EU could result in the "collapse" of democracy in Europe. He went on to outline the possibility of military coups and military uprisings, all stemming from the state of indebtedness. Greece, Spain, and Portugal only became democracies in the 1970s, and all three have a history of violent military uprisings. In fact, Greece encountered national strikes and riots when it was announced that there would be wide spending cuts to deal with the public deficit. The head of the European Trade Union Confederation declares that "This is 1931,

we're heading back to the 1930s, with the Great Depression and we ended up with militarist dictatorship." He goes on to say that the crisis Europe is facing is "very serious, not just economically, but politically as well." While Greece contributes only 2.5% of GDP to the European Union, Spain contributes 12%, which means that a faltering Spanish economy would have a much more disastrous impact on the Eurozone than Greece did. If country after country continues to topple in the European Union, we could bear witness to a collapse of European stock markets, the Eurozone, and the euro. New York University Professor Nouriel Roubini says that "Down the line, not this year or two years from now, we could have a breakup of the monetary union." (Philips, 2011) This would have a ripple effect, as countries would suddenly be much less likely to be able to export to Europe, and as a result, would see a decline in their economic health. Essentially, if countries continue to limit their actions regarding this economic crisis, the world could be on the verge of entering another Great Depression, with skyrocketing levels of unemployment and a breakdown of international trade.

Countries that are on the verge of defaulting or are in need of a bailout should take some very clear steps to correct the situation they are currently facing. The first would be to raise the retirement age, which all of the countries have actually done. However, this should make many governments wonder if they've raised the age high enough. If, after these subsequent moves are made, the country is still not seeing a reduction in its deficit, then they will want to go back and consider raising the retirement age by another 2 years. The next move would be to cut the marginal tax rate in an effort to stimulate the economy. As mentioned previously, this was part of a plan imposed by Ronald Reagan in the United States during the 1980s, and was applauded by Bill Clinton's team of advisors following his exit from office. They stated that "It is undeniable that the sharp reduction in taxes in the early 1980s was a strong impetus to economic

growth." (Saxton, 1996) Furthermore, the Minimum Wage Study Commission has concluded that a 10% increase in minimum wage reduced teen employment to 3%, a 1% reduction. (Saxton, 1995) To increase employment, countries could lower the minimum wage as their next step to reducing a deficit and taking steps toward a surplus, as this would increase overall employment. Perhaps the most drastic step of all would be to raise the required number of hours for workers by five per week. Though this would directly and immediately affect the quality of life of a country's citizens, it would also help to stimulate the economy. Meanwhile, the government could be cutting its spending by reducing public sector wages and benefits. In addition, raising tuition on colleges would undoubtedly generate more money This would undoubtedly cause a public uproar, but if the change is made gradually, then the effects will be much less noticeable. However, if these countries don't start to act soon then they won't have the luxury of making gradual changes; they will have to happen all at once, which could result in the kind of uprising they are so actively trying to avoid.

Conclusion

Of all the countries in the European Union that are struggling with unsustainable debt loads, it seems that Ireland is both in the worst shape and doing the best job at trying to diffuse the situation. Continuing to try to stimulate their businesses with their 12.5% marginal tax rate is a savvy economic decision, as is lowering their minimum wage, raising the retirement age, and raising the cost of tuition for college students. Their work week is already among the longest of the countries in Europe at 39 hours per week minimum and 48 hours per week maximum, but they could always add 5 hours if they find themselves in even an even direr situation. Additionally, new public-sector workers are facing 10% reduced pay, which will further lower

government spending. Ireland appears to be on the right track with their spending decisions, except for raising marginal taxes; and of course, we have to wonder if it's all too late.

On the opposite end of the spectrum is Portugal. Though they are arguably in less of a dangerous position than Ireland because of their debt load, they will be operating with essentially no government for a 55 day period since their Prime Minister's resignation in late March 2011. Since the Prime Minister's austerity measures were rejected, the country appears to be cruising toward needing a bailout, and they aren't looking back. Portugal may not have defaulted yet, but it seems to be just around the corner; in the meantime, they should take a look at Ireland's recent economic changes and nearly mirror them.

Spain is definitely doing some things right, such as raising the retirement age, but they are missing out on some crucial and potentially quick things that could be done. If they raised tuition by even 2000 euros per year per student, then that would significantly increase government earnings. Additionally, they should add several hours to their work week, as it is only about 36 hours per week. They have raised the retirement age, which is a good first step, though their public-sector workers are only facing a 5% pay cut, while Ireland's are experiencing a cut of 10%. Spain is undoubtedly taking some action in trying to repair its economy, but its efforts seem to be a bit lacking.

Greece was the first domino to fall in this European economic fiasco, and it began with the announcement that their deficit was actually at 12.7%, more than double what was reported until they instated a new government. Since Ireland and Italy also both have a deficit of 12.0% or greater, this figure is very troubling for the European Union. Greece has raised its retirement age to 65, and has cut public sector spending, but hasn't touched its marginal tax rates or

minimum wage. In fact, their minimum wage has been steadily increasing since 1999, (Eurostat, 2010) which is an economically questionable trend to support. Their work week hasn't changed, and neither has their tuition for colleges.

Countries with a debt level of greater than 90% should make sure that they have a retirement age within the range of 64-68, depending on how high their debt level is. A country like Italy, with a debt level at 124% of GDP may be able to get away with having a retirement age of 66, while Portugal will have to increase their age to 68 since their debt level is at 201%. Countries in the danger area of 90% or greater should also be cutting public sector wages by at least 10%, and slowly increasing them if they feel they can afford to slow the rate at which their debt is declining. GDP growth is slowed when countries have a debt level higher than 90%, so avoiding that threshold will be key for maintaining a sustainable economy. For countries that are already well above this threshold, there should also be an increase in the number of hours worked per week by its citizens. This may seem extreme, but it could be crucial in helping a country develop its economy to a point where it is experiencing growth. For countries that are at the danger threshold level of 90% debt, they should see their retirement age able to drop a bit lower (1 year) than countries that are higher than 100%, and they may be able to reduce the number of hours worked per week. Marginal tax rates should remain low to keep government revenue high, and public spending should be kept to a minimum, particularly when salaries of public sector workers can be cut by 10-15%. College tuition should be consistently raised while the minimum wage is lowered, so that those who could perhaps no longer afford to attend college now find it easier to become employed. This will lower the unemployment level and bring in more government revenue from tuition increases.

The target range for debt to GDP ratio for developed countries should be between 60-75%, a range that will keep them away from the dangerous 90% threshold, but also will allow for GDP growth and will help maintain the quality of life they've come to expect. According to the National Bureau of Economic Research, countries in the 60-90% range enjoyed a 2.8% median growth rate of GDP, while those that eclipsed the 90% threshold were subject to a 1.9% growth rate. To get to this comfortable debt range, there are several key moves a country can employ to lower their debt levels, which have been discussed: raise the retirement age, increase work hours per week, increase tuition, decrease marginal tax rates, decrease minimum wage, and cut public sector spending. We should be seeing countries in the European Union using all of these strategies, since they are fast approaching what could be a breakup of the Union, collapse of the euro, and the start of a second Great Depression.

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