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October 2011

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# ViewPoint

## Greek Debt Fears Could Spread

**U**ncertainty over Greek debt may soon come to an end. Authorities have been working for months to negotiate deals between countries, bond holders, and Greek politicians. **Citizens are protesting government spending cuts as the country heads toward default. That outcome could have serious consequences for people all around the world.**

### Will Greece become like Lehman Brothers?

Lehman's collapse ignited fear and froze financial markets. Businesses (and even the state of California) could not get loans during the crisis. When panic like this spreads it is called contagion. Government efforts thawed the financial system but could not provide a full recovery.




### Avoiding economic catastrophe is possible in

**Greece.** In 2003, Uruguay successfully restructured its debt and devalued its currency to place itself on firmer financial ground. However, as part of the European Union (EU), Greece cannot lower the value of its currency to boost exports and tourism.

Greece will try to delay pain by spending less, borrowing more, and negotiating better terms on its existing debt. Greece is hoping for economic growth. Then it may be able to grow its way out of excessive debt.

European bailouts are not focused entirely on Greece. Officials for the EU want to control contagion. Banks all over Europe could have some Greek debt. A solution might be to guarantee money and debt at European banks. **Another problem is that focus will turn to larger nations in the group labeled PIIGS (Portugal, Italy, Ireland, Greece, and Spain).** Reluctant nations in stronger financial positions have had no choice but to step in.

The future of the EU may be at risk. **In order to keep the group together, European countries may empower the EU with more financial flexibility.** Regardless of the outcome in Greece, when this situation has passed, it is likely that European economies may be more united than ever. Of course, there are no guarantees. 

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