



WEALTH MANAGEMENT, LLC

The Sick Man of Europe

In 2004, the Fourth of July was celebrated more in Greece than in the United States. On that day, the national team beat tournament host Portugal to win the European Football Championship. Six years on, Greece is the sick man of Europe. What happened?

The Greek crisis bears some resemblance to the financial crisis in the United States. However, instead of housing, massive debt in Greece was used to finance generous but unsustainable public benefits.

Greece has a statist economy. The public sector accounts for 40 percent of gross domestic product (GDP). Most Greeks take early retirement. Greeks are also getting older. Fewer people are working and paying taxes to support expensive retirement, health and other benefits.

European Union aid represents 3.3 percent of the Greek GDP, which helps. However, that is not enough. In the past, the government funded public spending by borrowing heavily from European banks. Now it's time to pay some of that back, and the Greek government doesn't have the means to do so. Nor does it have the ability to print money or to devalue the currency, as Greece did before it joined the Euro.

The Greek economy is not particularly large. On a global scale, the main concern is not with Greece itself but with the stability of Western European banks that lent to Greece. This is why the European Union and the International Monetary Fund stepped in to help.

Financial markets are aware of these problems and we believe fully reflect their implications.

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