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A Greek Drama Unfolds

by Doug Stout

A recent article in the *Des Moines Register* tries to raise concerns in voters' minds about proposals to cut the size of government spending in Iowa. The article is entitled "Governor's race: Republican candidates' plans to cut spending worry some Iowans." It starts off by saying that all three Republican candidates for Governor proclaim cutting state government spending as a top priority and then the rest of the article expresses concerns about what impact reducing government will have on services.[1] The irony of these types of articles is that they miss the point. The amount of government that we have has to be balanced with the amount of state revenue available. In the long run there is no such thing as a "free lunch." However, even though we all should know that to be true, it seems to escape us when we ask for things from our government. We seem more than willing to ignore reality when we don't consider "where the money comes from" when we increase government spending at any level.

The current economic disruptions caused by state budget cuts are a direct result of expanding state government beyond our ability to pay for it. When you commit more resources to future expenditures than the state is going to bring in, you inevitably create budget shortfalls. The past few years have shown the Governor and the State Legislature expanding expenditures by a greater percentage than projected revenue, which means an eventual budget shortfall was inevitable. It just happened sooner than they expected due to the economic recession. Budget shortfalls are painful and Governor Culver choosing to make "across the board" spending reductions, rather than having the Legislature choose which expenditures are most important for the state, means that our state revenues are not being spent in the most productive manner. It is the job of Legislators to make difficult funding choices. This is a responsibility that has been ignored at the state level, at the federal level, and around the world. It seems to be an international epidemic of irresponsibility.

When Iowa government spends more than we can afford, it results in painful cutbacks. What happens when a nation reaches the point where it has overspent and faces an inability to meet its financial obligations? Greece has recently faced that scenario. Limiting the size of government means making difficult choices; failure to limit the growth of government can lead to dramatic results.

When the Greek government reached the point where it was faced with default on its financial obligations, it had to ask for assistance from the other members of the European Union. The European Union is an organization of 27 nations, which have an intertwined economic system. Sixteen of those nations, including Greece, use a unified currency, the Euro. France, Germany, and Greece, along with 13 other nations do not have a national currency; they all use the Euro as a common currency for much of the European continent. When one nation was in danger of being unable to meet its financial obligation it caused a crisis that threatened to impact the financial markets on a world-wide basis. The other nations of Europe had little choice but to support their common currency by providing the equivalent of a trillion U.S. dollars to guarantee the Greek debt and also the debt of several other member nations who were in danger of default. In exchange, the Greek government had no option but to adopt an "austerity package." This a term which means that in order to stabilize their economy and get assistance from outside the country, governments have to agree to large changes in the way they conduct their financial affairs.

In the case of Greece, the Greek Parliament passed severe economic restrictions including drastic wage and spending cuts to curtail their budget expenditures, which were essential before the other nations would spend their funds to guarantee the debt.

There are close to a million public-sector workers in Greece who are seeing their annual salaries cut by 15 to 20 percent. Many others will lose their jobs entirely as the nation must tighten its belt. The private sector is also being impacted as labor laws are changed to allow more discretion for private employers to lay off workers to make their economy more competitive. In addition, the nation's Value Added Tax, which operates as a kind of hidden sales tax that is built into product prices, has risen sharply from 19 percent at the start of the year

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to 25 percent now. Fuel taxes have been increased. Pensions have been decreased and people are going to have to work longer before they can claim retirement benefits.[2]

In response to the unprecedented measures being adopted by the Greek Parliament, frustration that the political leadership had led them to this point, and with an economy mired in a deep recession, on May 6th groups of masked youths hurled petrol bombs, stones, and sticks at riot police as nearly 50,000 striking workers and public servants marched on Parliament, where the austerity legislation was being debated. Protestors also set fire to a bank, killing three people in the fire.[3]

Despite the protests, the Greek Parliament had little choice but to pass the austerity measure. The Prime Minister said there was no time to lose in reforming Greece's broken economy, whose debt and deficit problems had triggered a wider crisis involving all 16 nations who use the Euro as their currency.[4] Several other EU nations also faced imminent problems with the danger of being unable to meet their financial obligations.

After Greece passed the measures to bring their deficit under control, the other members of the European Union voted to contribute money to stabilize the Greek economy and their common currency position. France and Germany, the two largest economies in the EU, issued a joint declaration vowing to preserve the value of the Euro.[5] The German Parliament voted to contribute their allocated share of $28 billion Euros, despite widespread public opposition to the plan. The public discontent was due to the fact that Germany has managed to keep its debt small and felt aggrieved that it should spend money to support countries that had allowed their debt to skyrocket. The plan passed 390 to 72, but with 139 Members of the German Bundestag, their lower House of Parliament, abstaining on the vote.[6] The vote in Parliament came on Friday. On Sunday, based largely on the public discontent with the plan, Chancellor Angela Merkel's ruling coalition lost members in key elections, losing their majority in the Upper House of Parliament, and ending their coalition's ability to pass legislation without agreement from minority parties.[7]

World stock markets, including in the United States, rallied dramatically after the EU agreed to prevent default on the debt. In addition to Greece; Spain, Portugal, and Italy were thought to be in perilous territory regarding their ability to meet their financial obligations, prior to the move by the other EU nations.[8] The EU felt it had no choice but to come to the assistance of some of their currently economically weaker members, or face the collapse of the Euro and severe economic disruption. Accumulating unmanageable national deficits has very real consequences.

The lesson for the United States, as well as for Iowa, is that we must learn to live within our means. Nations can essentially go bankrupt and the United States is not immune from those consequences down the road if we do not get our financial house in order. There is no "larger economy" to come to our aid if the United States reaches the day that we can no longer meet our financial obligations. Our political leadership must get our fiscal house in order, sooner rather than later. If they fail to do so, then one day it will be the United States Congress that will be faced with no option but to pass draconian "austerity" packages that will change our society dramatically. The only other option might mean the United States of America would default on its debts. The consequences of our insolvency are hard to accurately predict, but the negative impact on our standard of living and the future of our nation would be dramatic and painful.

(Endnotes)
[1]Jason Clayworth, "Governor's race: Republican candidates' plans to cut spending worry some Iowans," *Des Moines Register*, May 10, 2010, http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=20105100323 (May 11, 2010).
[2]Nick Malkoutzis, "Why the Greeks are so angry," *MSNBC.com,* May 8, 2010, http://www.msnbc.msn.com/id/37037022/ns/world_news-europe/ (May 11, 2010).
[3]Harry Papachristou and Renee Maltezou, "Greek parliament backs tough austerity bill," *Reuters*, May 7, 2010, http://www.reuters.com/article/idUSTRE64525E20100507 (May 11, 2010).
[4]Ibid.
[5]Edward Cody, "Greek bailout plan approved by German Parliament," *The Washington Post*, May 7, 2010, http://www.washingtonpost.com/wp-dyn/content/article/2010/05/07/AR2010050701987.html (May 11, 2010).
[6]Ibid.
[7]"Merkel's Ruling Coalition Loses Majority in Upper House of Parliament," *RTTNews.com*, May 10, 2010, http://www.rttnews.com/Content/PoliticalNews.aspx?Id=1298483&SM=1 (May 11, 2010).
[8]James Kanter and Landon Thomas Jr., "Markets Welcome E.U. Rescue Package," *New York Times.com*, May 10, 2010, http://www.nytimes.com/2010/05/11/business/global/11euro.html (May 10, 2010).

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