What is SPExit and Why Your Job and Bank Account Could Depend on It?

June 6, 2012 - A lot of economists and pundits have been saying that the US economy is turning around. And there have been a few hopeful signs. Over the past few weeks, housing markets have been performing better. At the same time, there have been other more ominous signs such as last week's abysmal jobs report and more recently, a report showing that American productivity has slipped. Overall, the reports have been ambiguous at best. But what none of these reports or the media seem to be looking at in any depth is what is happening in Europe. And that's a big mistake. The Eurozone, as it has become known, the United States largest export market. And it is on the verge of economic collapse.

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Millions of American jobs are tied directly to the Eurozone. More specifically, those jobs are dependent upon the ability of people within that area of the world to purchase the goods and services that they manufacture and supply. So imagine what would happen if the currency known as the Euro collapsed. That possibility has been increasing daily.

If you watch the news at all, you have probably seen reports on the problems in Greece; one of the countries that uses the Euro. Over the past several weeks, resistance to economic austerity measures taken by the Greek government has led to the toppling of that government in recent elections. And they have led to speculation that Greece will stop using the Euro and return to issuing its own money. Virtually everyone expects this to be an orderly transition.

But Greece is small potatoes when compared with some other European economies. And the economy to watch now is that of Spain. They have a huge economy. They also have unemployment that has soared to more than 20%. And in some demographic groups - specifically younger workers - the unemployment rate is significantly higher than that.

Like most of Europe, Spain's economy is socialist in nature. The government spends huge sums of money on entitlement programs and a social safety net. Unfortunately, like most of the rest of the world, they are spending money that they don't have. And like most of the rest of the Eurozone nations, Spain is relying on Germany - one of the few EU nations that is not in the midst of a financial crisis - to bail them out. But there is a problem. And that problem is not leading to open speculation in some parts of Europe that Spain will leave, or exit, from the Euro. In the UK, it is being referred to as SPExit.

Germany's constitution simply prevents them from turning on the printing presses to help out the other European nations. In fact, in order for them to help, they need assurances that they will be repaid. And to get those assurances, they have been insisting on austerity measures. Those measures, which were at first accepted by Greece, have now led to the downfall of the Greek government. They also played a major role in France's recent election of a socialist president who has vowed to move away from the austerity measures imposed by his predecessor. The bottom line here is that Germany is pretty well standing on its own now and not likely to budge too much more.

All of this leaves the value of the Euro in question. If SPExit does occur, Spain won't be the only country that is badly hurt. Italy faces many of the same issues and it too would likely stop using the Euro. In all likelihood, these events would tank the currency and Europe markets would rapidly collapse.

Now you may think that all of this is simply wild speculation. It isn't. Just today, Moody's downgraded Spanish bonds from an A- rating to a BBB rating. That means that payments on Spain's national debt are going to get a lot more expensive very quickly. And there have already been runs on some Spanish banks. In order to bolster confidence, the Spanish government has announced that 70% of the banks in the country are just fine. But that means that 30% of the country's banks are in some form of trouble and could be facing collapse. Just imagine what would happen here if 30% of American banks were facing the grim reaper. It is an ugly thought at best.

But all of this is just academic to most Americans. In fact, most people I know could care less about what is happening in Spain, Germany and France. That will all change however if the Euro goes bust. There will be a lot of American companies that won't be able to sell to their European clients. In turn, they will have to lay off people here. If that happens, it is going to be a very ugly economic ride for everyone, and it could take a decade or more to the world's major economies to recover.

byJim Malmberg
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