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Euro's collapse could bring crisis for American economy, experts say

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A weak euro, Europe's common currency, means Americans visiting the continent enjoy seeing their dollars go farther at hotels, restaurants and elsewhere.

"The dollar is strengthened and you have more buying power," said Sean McCurdy, president of the Global Business Travel Association's Pittsburgh chapter in Moon.

But if the euro were to collapse — as some experts believe could occur — the hassle of swapping American dollars for multiple European currencies as in the past would be the least of America's worries.

Experts say if EU nations abandon the euro — introduced in 1999 — and revert to individual national currencies, it would hurt American business, investment and the economy.

"If the euro collapsed, a country like Spain would leave the eurozone and go back to its own currency. And that would be chaos," said Chris Telmer, associate professor of financial economics at Carnegie Mellon University's Tepper School of Business.

"Anything that happens in Europe has implications for the U.S. in general," said Erasmus Kersting, economics professor at Villanova University School of Business.

"U.S. companies doing business there would take real losses," said George Haley, professor of marketing and international business and director of the Center for International Industry Competitiveness at the University of New Haven, West Haven, Conn.

"The growth in U.S. manufacturing would slow down, and it's been the most consistently performing section of the U.S. economy for the last three years," Haley said.

Several Western Pennsylvania corporations have extensive operations in Europe. Bank of New York Mellon Corp. has 9,100 employees there, and Westinghouse Electric Co., has about 4,000. Bayer Corp., Robinson, is owned by Bayer AG of Germany. It operates globally but derives about 40 percent of its \$46 billion in sales from Europe, said spokeswoman Katie Kirkpatrick.

"The euro-zone crisis has made Bayer more cautious, and its financial policy is more conservative than it was four or five years ago," Kirkpatrick said. "Bayer monitors its bank risks daily, and deposits larger amounts at banks with good creditworthiness."

BNY Mellon is "deeply embedded in the global financial system" and has a "Eurozone contingency plan," said a letter the bank

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Sean McCurdy, president of the Pittsburgh chapter of Global Business Travel Association. Heidi Murrin Pittsburgh Tribune-Review

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distributed to clients. It states the bank will “respond to the potential exit of one or more countries from the Eurozone.” BNY Mellon spokesman Ronald Gruendl declined to elaborate.

Westinghouse, the nuclear-power concern based in Cranberry, derived about 25 percent of its \$5.2 billion in revenue last year from Europe. But it is “not dependent on the strength of any single currency,” said spokesman Vaughn Gilbert.

e_SDLqOur global business, including Europe, remains strong, and we project ongoing growth in Europe,” Gilbert said. “We are not dependent on the strength of any single currency.”

The backdrop for doubts about the euro, however, is that national economies in Europe are struggling, some nations there are defaulting on their debts, and the eurozone could be sliding into recession.

According to data from European Union’s statistics agency — or Eurostat — the economic output of the 17 EU nations fell by 0.2 percent in the three-month period ended June 30, after posting zero growth in the quarter ended March 30.

Two straight quarters of economic contraction indicate a recession.

A recession already has taken hold in the economies of Italy and Spain, Europe’s third- and fourth-largest economies.

Growth in Germany’s economy, Europe’s largest, slowed to just 0.3 percent last quarter, said Eurostat. Second-largest, France, recorded zero growth last quarter, its third stagnant quarter in a row.

“A severe decline in economic activity (in Europe) will be noticeable in the revenue and profits of U.S. companies and banks,” Kersting said.

e_SDLqIf you’re a U.S. company selling in Europe in competition with European companies, it will be difficult to compete,” given the relative strength of the U.S. dollar, said Fariborz Ghadar, founding director of Penn State University’s Center for Global Business Studies State College.

“And if you’ve bought bonds valued in euros, and the euro drops, the value of those investments becomes much less,” Ghadar said.

After Greece’s bonds were downgraded to junk status last year, the island nation received a bailout from the European Union conditioned on Greece adopting austerity measures. But lingering doubt about its political will to impose such measures has created fear Greece could exit the eurozone and drop the euro as its currency.

This past week, Greek leaders met with their German and French counterparts to plea for more time to adopt reforms and keep aid coming.

“It’s not a huge step economically if Greece exited the euro, because it’s not that big an economy,” Kersting said. e_SDLqThe fear is that if Greece left, other countries that are bigger might leave, such as Portugal and Spain.”

“It’s not as much about market fundamentals; it’s more the psychology of the market,” said Kersting, who is a German citizen.

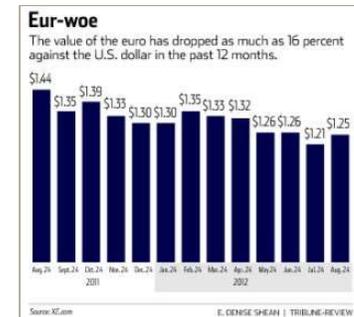
Earlier this year, Spanish banks were bailed out following credit downgrades. But concerns mount that Spain’s banks or the government itself might default on those EU loans, adding further doubts about the financial stability of eurozone nations.

If Spain’s banks worsen, the government would shutter them over a weekend, convert its currency back to pesetas from euros, and value pesetas very low relative to other currencies, said CMU’s Telmer.

“This is precisely what the European Union was meant to avoid,” he said.

If the euro failed, drachma and lira and other national currencies would have to be reintroduced and exchange rates set, and business contracts would all have to be reset, said Gerald Hanweck Sr., professor of finance at George Mason University, Fairfax, Va.

“U.S. companies would want contracts restructured in U.S. dollars, and that would hamper trade substantially because these countries would not have access to enough U.S. dollars,” said Hanweck.



Graphic charts the decline of the euro against the dollar.

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A tipping point could be reached in early September in Germany, the strongest EU member economy, Kersting said. That's when a German high court is expected to rule whether that country's constitution allows Germany to participate in EU bailouts.

"There's a willingness in the strongest economy — Germany — to keep (the EU) together," said Hanweck, who is among those experts who believes a euro breakup is unlikely.

"But I'm not sure they can fix this with monetary policy and bailing out banks and the various countries," Hanweck said.

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