Winners and Losers of the Greek Financial Crisis

From French Winemakers to U.S. Pharmaceutical Companies, Who Stands to Gain and Lose From the Greek Financial Crisis and the European Bailout

OPINION by STEVE BROZAK

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A Greek financial tragedy was barely averted this past Sunday, when the European Union and the International Monetary Fund promised the equivalent of up to $1 trillion to guarantee the Greek national debt and the debts of other financially shaky countries like Spain and Portugal.

The Dow Industrials shot up 404 points, the biggest one-day surge in a year.

The end of this act was much like the predetermined outcome of an ancient Greek drama. After months of back-and-forth negotiations, an agreement to save Greece and the European Union was inked hours before nervous Asian markets could open on Monday morning. But this move may only stem the tide of default in Europe. Other countries are likely to seek bailouts and, in a worst-case scenario, it could lead to Greece being evicted from Club Euro.

Whatever happens, there will be winners and there will be losers, both in the near-term and over time. What we are likely to see in the near-term is a devaluation of the euro as a currency. This will happen either through European Union action, or through bankers saying the euro just isn't worth what it used to be.

U.S. Pharmaceutical Companies Could See Lower Profits

As a research firm, dedicated to the analysis of businesses in the health care sector, we believe U.S. drug and medical device companies could be among the big losers as the euro is devalued. The euro's strength against the dollar has given U.S. pharmaceutical companies an edge in selling goods on the continent. In the first quarter 2010, companies like Merck & Co., Johnson & Johnson and Pfizer, Inc. reported favorable financial benefit from growing sales of U.S. products in Europe and they showed significant profits from managing fluctuations in a relatively strong euro.

Johnson & Johnson reported that domestic sales decreased by 9.6 percent while international sales increased by 11.1 percent, of which there was a positive currency impact of 9.7 percent. Merck announced that international sales of drugs and vaccines grew by 10 percent, including favorable impact of foreign exchange. Pfizer said that international revenues were $9.4 billion, an increase of 60 percent compared with the prior-year quarter, which reflected 48 percent operational growth and a 12 percent favorable impact of foreign exchange.

But what foreign exchange giveth, foreign exchange taketh away. The decline of the value of the euro would, over time, make U.S. pharmaceutical and medical device products more expensive for European consumers. Existing contracts with government insurance plans, written in euros will stay the same. However, since the euro will be worth less on international currency markets, U.S. companies will experience lower profits. Over time, as new contracts are written, U.S. companies will try to increase their prices, but will be at a disadvantage when competing against Europe-based firms.

European Manufacturers Win, European Politicians Lose

European manufacturers stand to benefit from a weaker euro both at home and abroad in other ways. As the euro's value decreases, European goods will become more affordable to foreign purchasers, making computers, cars, MRI machines and fine French wine more attractive to purchasers worldwide. Tourists to Europe this summer are also likely to benefit from a better exchange rate compared to the euro.

Democratically elected European leaders are likely to be among the losers. Discontent is in evidence throughout Europe. Gordon Brown already had to step down as prime minister of Great Britain, riots in Greece and falling popularity of George Papandreou could be the beginning of a change of government and Angela Merkel in Germany is facing significant resistance from her electorate for helping Greece during its crisis.

The governments that spotted Greece the trillion dollars are also likely to be losers. A trillion dollars sounds like a lot of money to most of us, but a trillion dollars just isn't what it used to be. What has already been offered may not be enough to pay the debts of the weaker Eurozone partners.

Managing a multinational currency, like the euro, requires thoughtful and deliberate action. It is a case of not doing too much and not doing too little, but doing it just right. National governments have been notoriously inept at managing complex economic situations. In this case, 17 governments, with competing national interests and capabilities are almost guaranteed to be unable to achieve the delicate balance needed to restore Europe's economic growth, without imposing harm on other nations.

What Happens After the Greek Bailout

The final act of this play could have one of three endings.

In the first scenario, the euro is devalued too much, pushing the euro under 100 cents to the dollar, as it was in 2002. U.S. and perhaps even Chinese sales in Europe and elsewhere would suffer greatly. U.S. manufacturers would be locked out of sales of high-ticket goods such as medical devices, locomotives, power plants, computers and telecommunications networks. Nations could begin erecting tariff barriers to protect their economies as they did before World War II, which would further depress world commerce. Carried to its extreme end, the final curtain comes down and everyone loses.

In the second scenario, the European Union would be unable to reduce the value of the euro to other currencies. If this were to happen, not only would countries like Greece, Portugal, Spain and Italy continue their downward spiral, but economies in strong countries like Germany and France could be damaged. More support of European economies would be necessary with continuing uncertainty in capital markets. The results could be an eventual economic gridlock.

The successful ending to this drama will be difficult to achieve. In a perfect world, done just right, balancing the euro against other world currencies would allow European manufacturers to better compete with U.S. and Chinese manufacturers, restore the European manufacturing base and have no negative impact on the U.S. recovery or growth of China's economy. Sad to say, we do not live in a perfect world.

Success depends on multiple countries managing through complex issues, acting wisely, with split-second timing, in their mutual interest. Given that it has taken more than two months to avert the current Greek crisis, it seems highly unlikely that Eurozone governments will be able to act quickly in the future as other problems arise.

The likelihood that all will turn out well without harm to anyone is therefore small. It is more than likely that some individual investors and some national economies will be disadvantaged by the current situation while others profit from it. We can only hope that, in the end, the players in the current situation depart from a zero-sum game strategy to one of mutual equilibrium so that what is now a Greek drama does not become a full-blown Greek tragedy.

The work is the opinion of the writer and in no way reflects the opinion of ABC News.

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