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What Europe's Crisis Means for America

WASHINGTON -- Europe's financial crisis has literally led to riots in the streets, especially in Greece, the country that just can't seem to get out from under its debt burden.

Greece isn't alone. Italy, Spain, Portugal and Ireland have also faced debt problems in recent months.

The situation has leaders from Europe to the U.S. to China worried that Europe might not be able to stop the debt crisis from spreading to other parts of the world, including the United States.

So how did Europe get into this mess and why is it so deep?

How the Mess Started

Analysts say it started when the European Union created the eurozone -- with one central bank and one joint currency, the euro.

During the good economic times in the last decade, some countries like Greece piled up debts, including big government spending.

"We've had a lot of countries borrow money to support a lifestyle, just as your neighbor might do and just as your neighbor might do," said J.D. Foster, a fiscal policy expert with The Heritage Foundation.

"They've gotten themselves into so much debt, that they can't possibly pay it off," he said.

Consequently, countries like Greece have to cut back their government spending because they can no longer afford it.

People who have benefited from that spending in the past have taken to the streets to protest those cutbacks.

European leaders came up with a bailout plan for Greece and other countries - but it wasn't enough, and matters got worse.

"And that's a big part of the issue in Europe is that they keep finding Band-Aids to get to the next day," Foster said.

"Fortunately, it's a question of when you're in a hole stop digging," he added."They keep digging, and the hole gets bigger and bigger. So when they finally fall in, it's going to be a real problem."

Debt Dominoes Fall

Meanwhile, the debt crisis is hitting the financial system, too.

When times were good, eurozone banks and governments frequently loaned money to each other.

But as the debt crisis gets worse, many of those loans have gone bad or may soon go bad. That makes it harder for banks themselves to borrow money --- and banks routinely borrow money to keep operating.

Now international financial firms are worried about how safe European banks are, and they're pulling money out of them.

That becomes a vicious cycle, making it even harder for European banks to keep their businesses strong.

Analysts warn Europe's problems could easily affect the U.S.

"We have an interconnected, global financial system," Foster explained. "Europe's financial system cannot go through severe distress without it affecting ours. The question is: how much will it affect us?"

Gov't-Owned Banks

Foster, however, believes Europe won't let its big banks fail.

"What you may not see is bank failures in the way you traditionally expect it because the Europeans have this habit of recapitalizing their banks with government bonds," he told CBN News.

"So when you have a bank that's about to fail, the government comes along and says, 'Here's a bunch of equity. We're going to use taxpayer money to recapitalize your bank,'" he explained.

"So the bank doesn't fail, but the government now owns it," he said.

As far as governments go, Italy may become the biggest problem. It has the third-largest debt in the world, and it's too big to bail out.

Italy has already turned to China for financial aid, and China says it wants to help Europe get through its crisis.

"I believe a proper resolution for European debt is very important for stability of finance, trade and economy," Chinese Foreign Ministry Spokesperson Jiang Yu said.

Digging Out

German Chancellor Angela Merkel said Europe will get through the crisis - but it will take time.

"It will be a long gradual process," she said.

"It is really traumatic and dramatic and going to be very painful for Europe for many years to come," Foster warned.

Since Europe is so important to America as a trading partner, a weak European economy could make it harder for the U.S. to get out of its own economic slump in the years ahead.