Europe’s Two Depressions

Paul Krugman
Less severe than post-1929 – but not that different
It’s not about fiscal profligacy

<table>
<thead>
<tr>
<th></th>
<th>Spain</th>
<th>Germany</th>
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<tbody>
<tr>
<td>Budget balance, % of GDP, 2007</td>
<td>+1.9</td>
<td>+0.3</td>
</tr>
<tr>
<td>Net debt, % of GDP, 2007</td>
<td>27</td>
<td>50</td>
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</tbody>
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Not much correlation between deficits and crisis
But strong correlation with capital inflows
European current account imbalances

- Germany
- GIPSIs
Capital inflows leading to overvaluation

GDP Deflators

GIPSIs

Germany
“Internal devaluation” is very difficult, even in “flexible” economies
Austerity in action