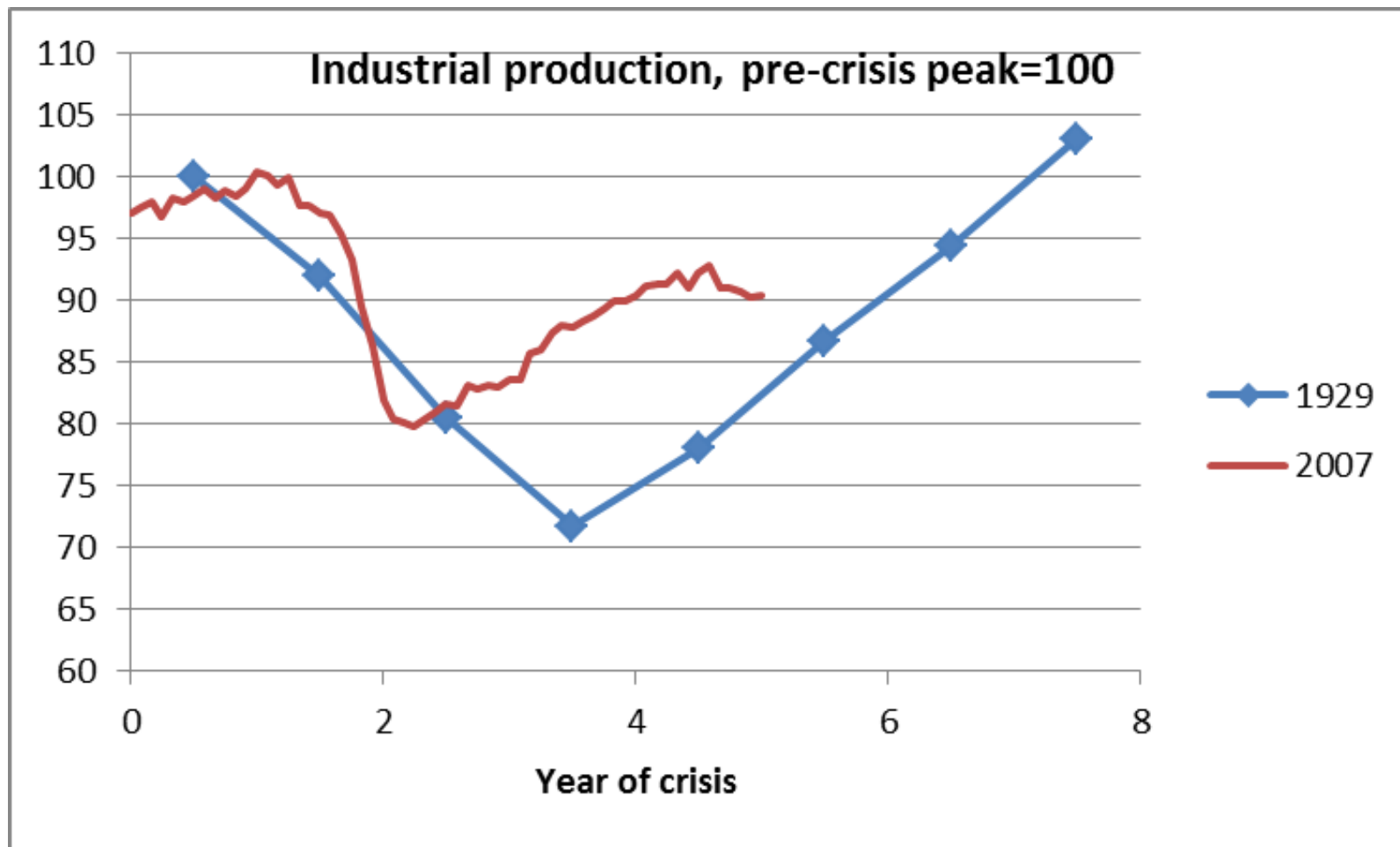


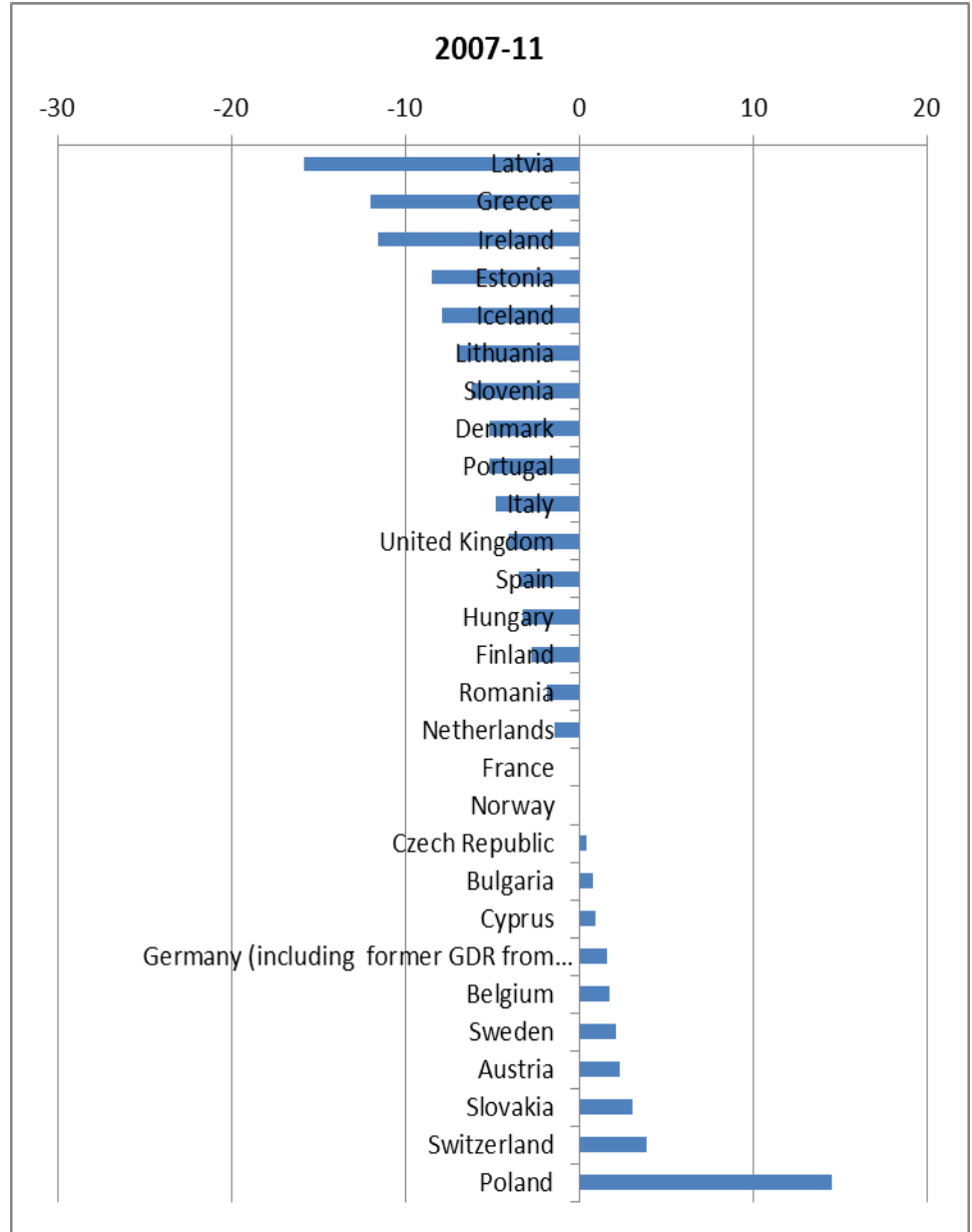
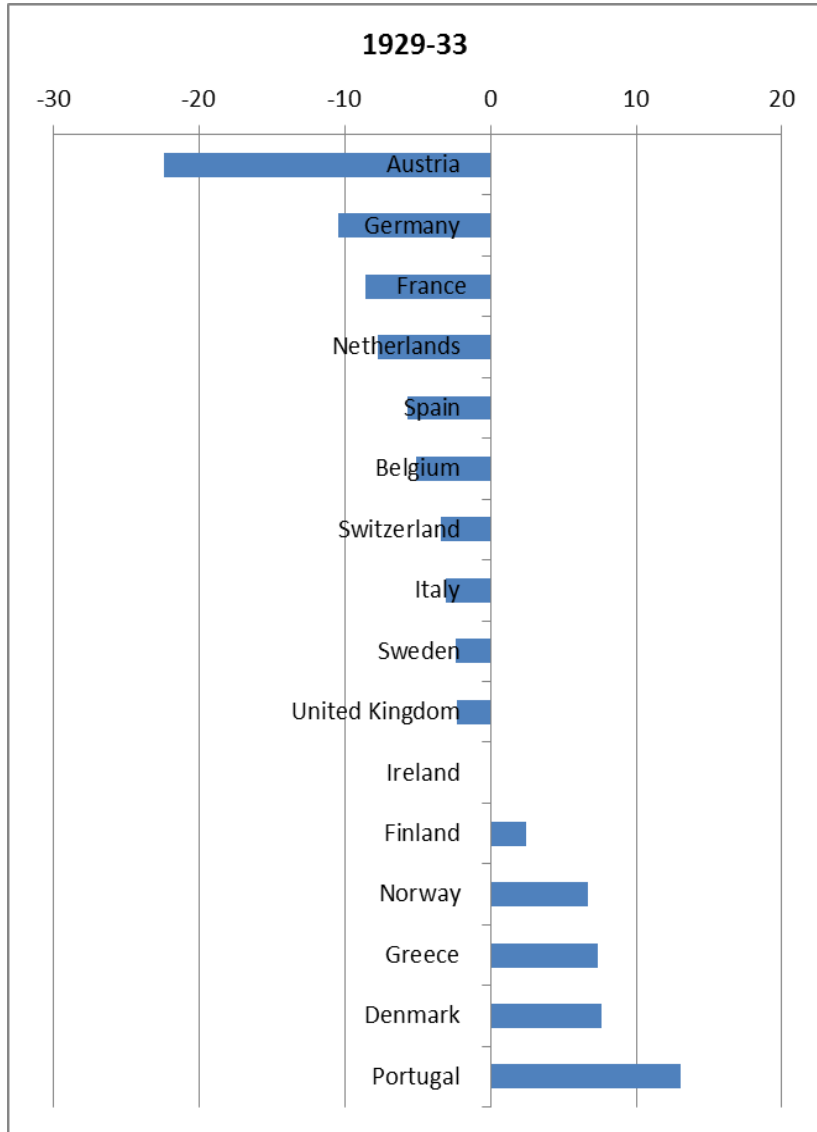
Europe's Two Depressions

Paul Krugman

Less severe than post-1929 – but not that different



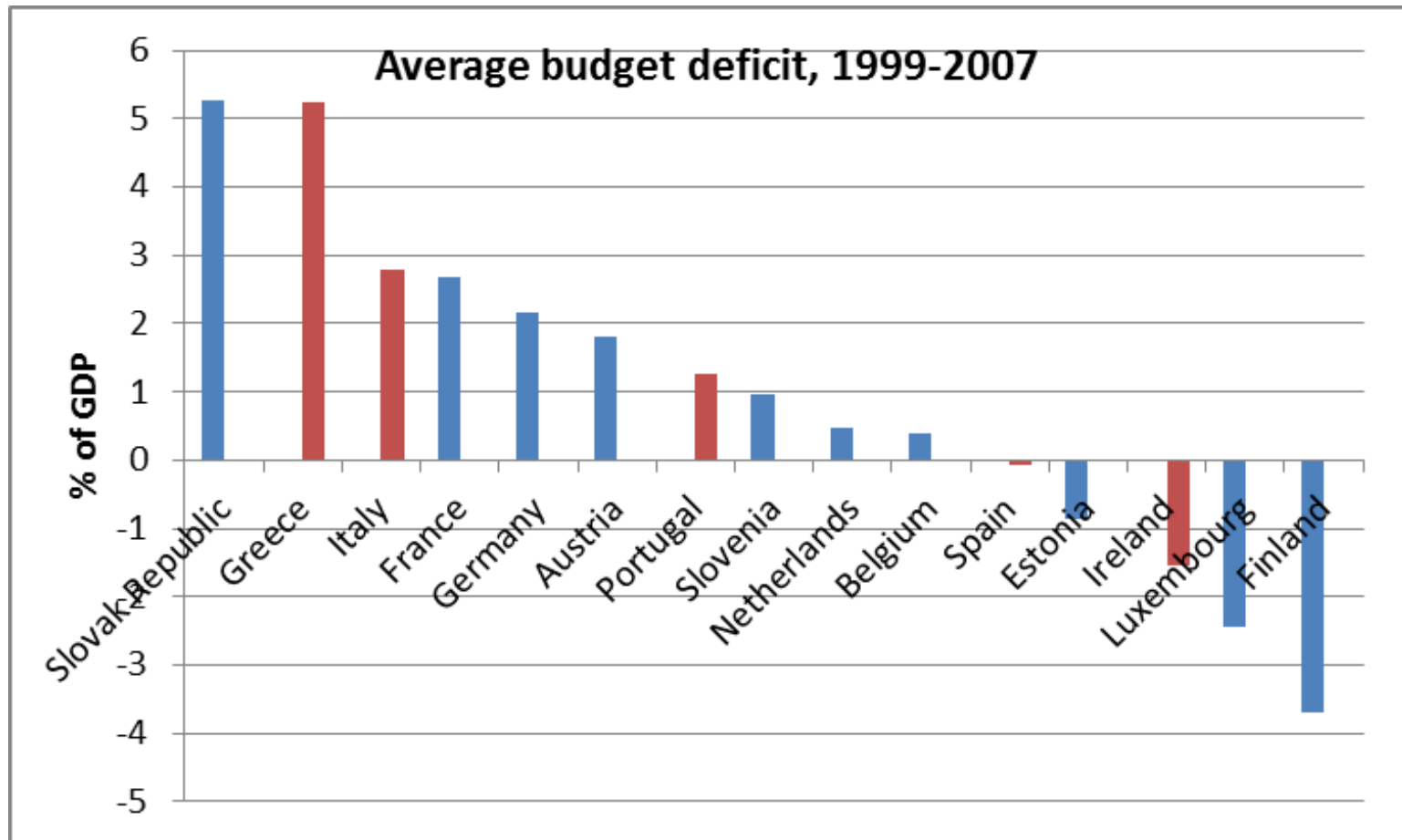
Changes in real GDP



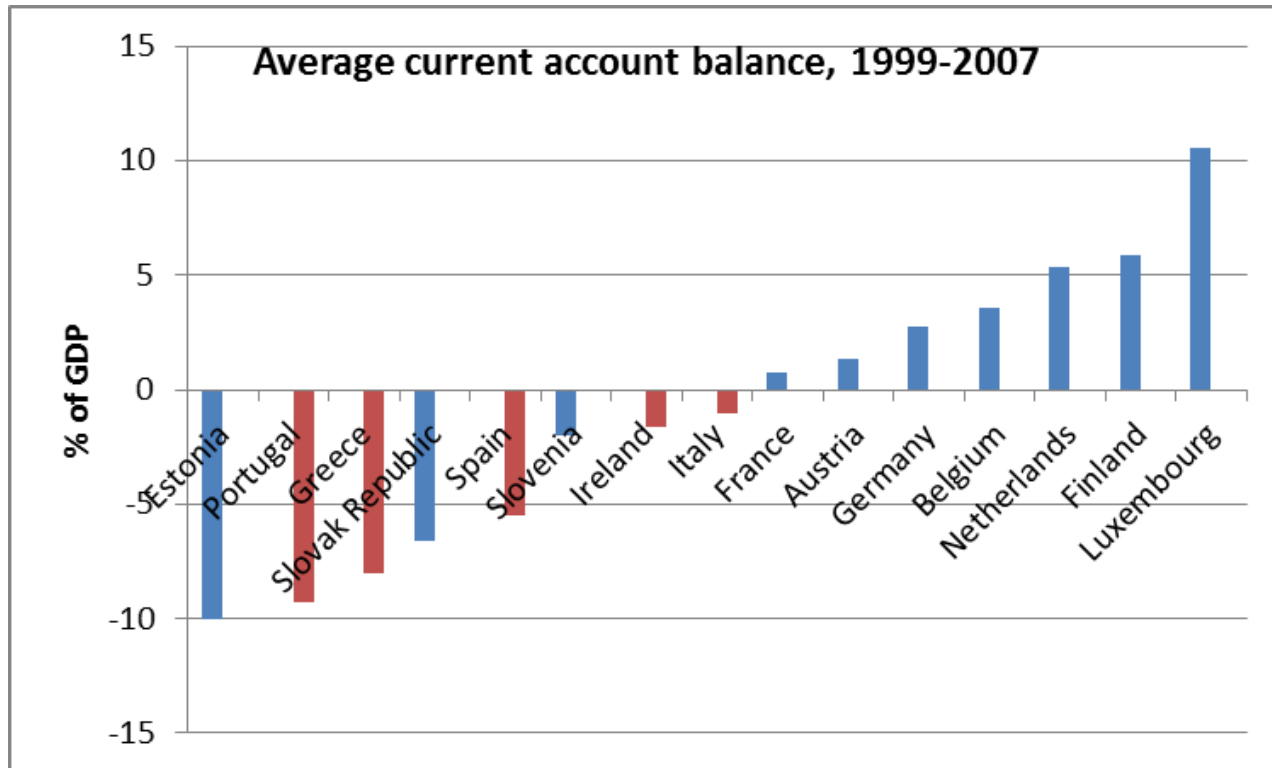
It's not about fiscal profligacy

	Spain	Germany
Budget balance, % of GDP, 2007	+1.9	+0.3
Net debt, % of GDP, 2007	27	50

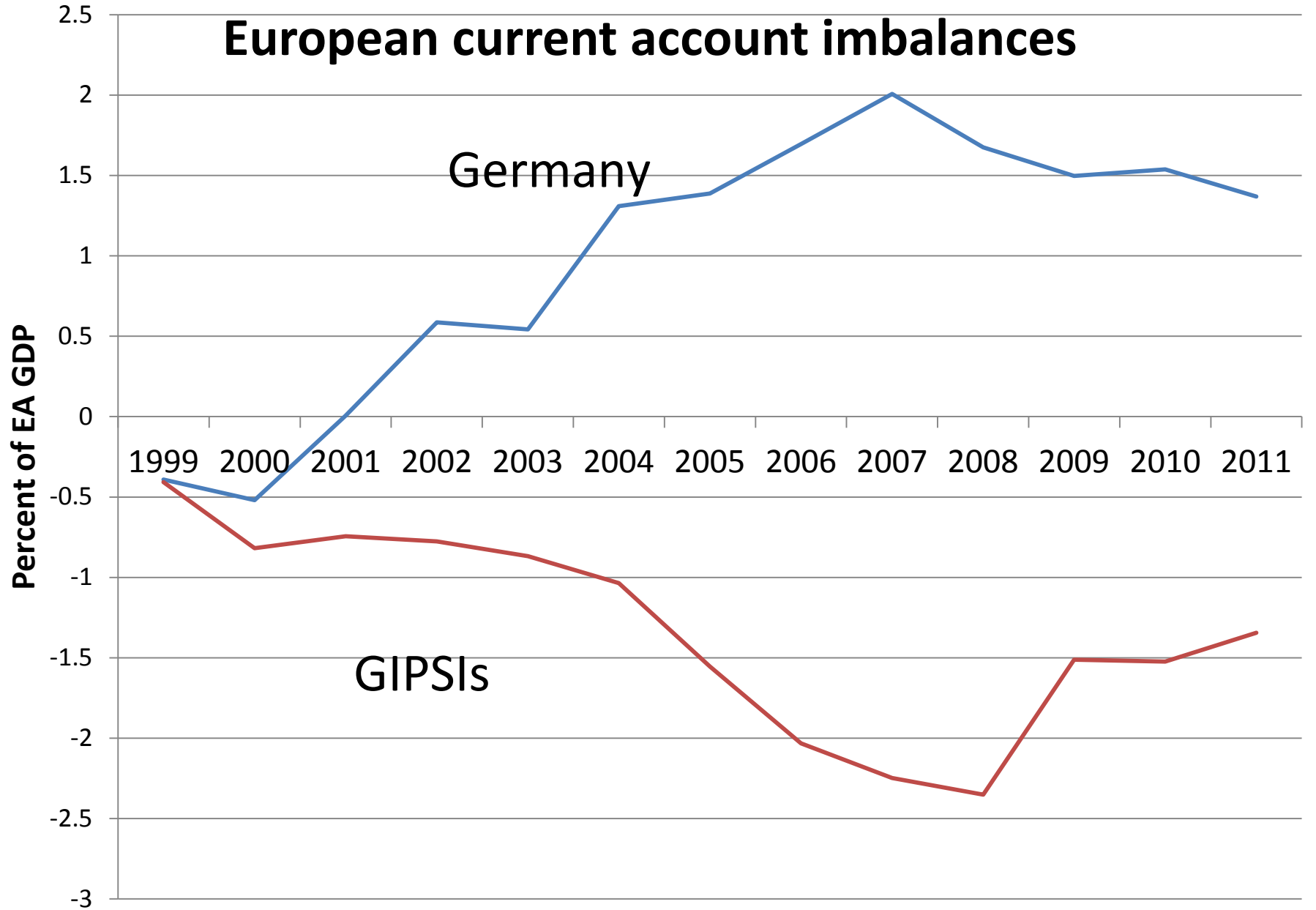
Not much correlation between deficits and crisis



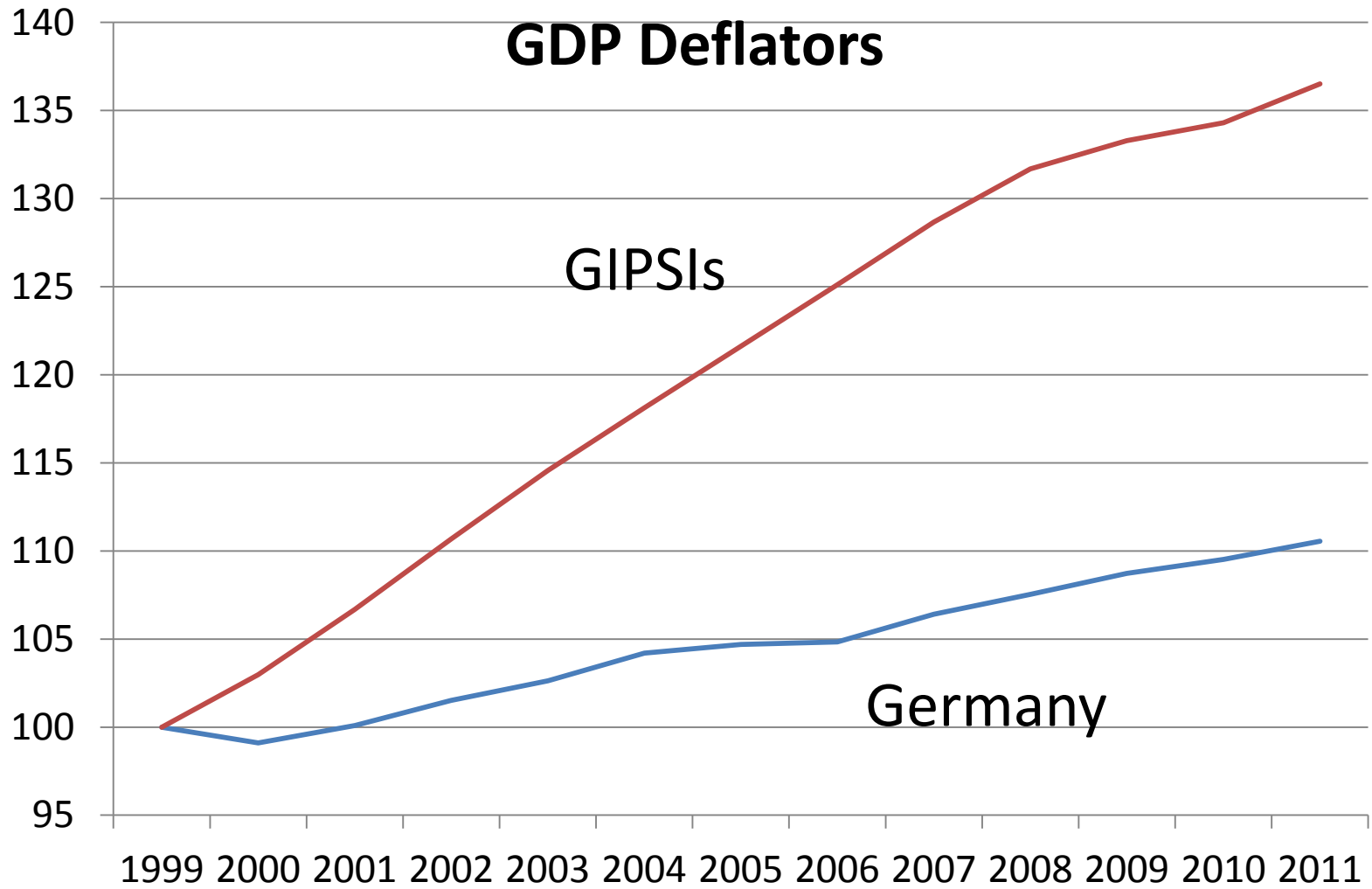
But strong correlation with capital inflows



European current account imbalances

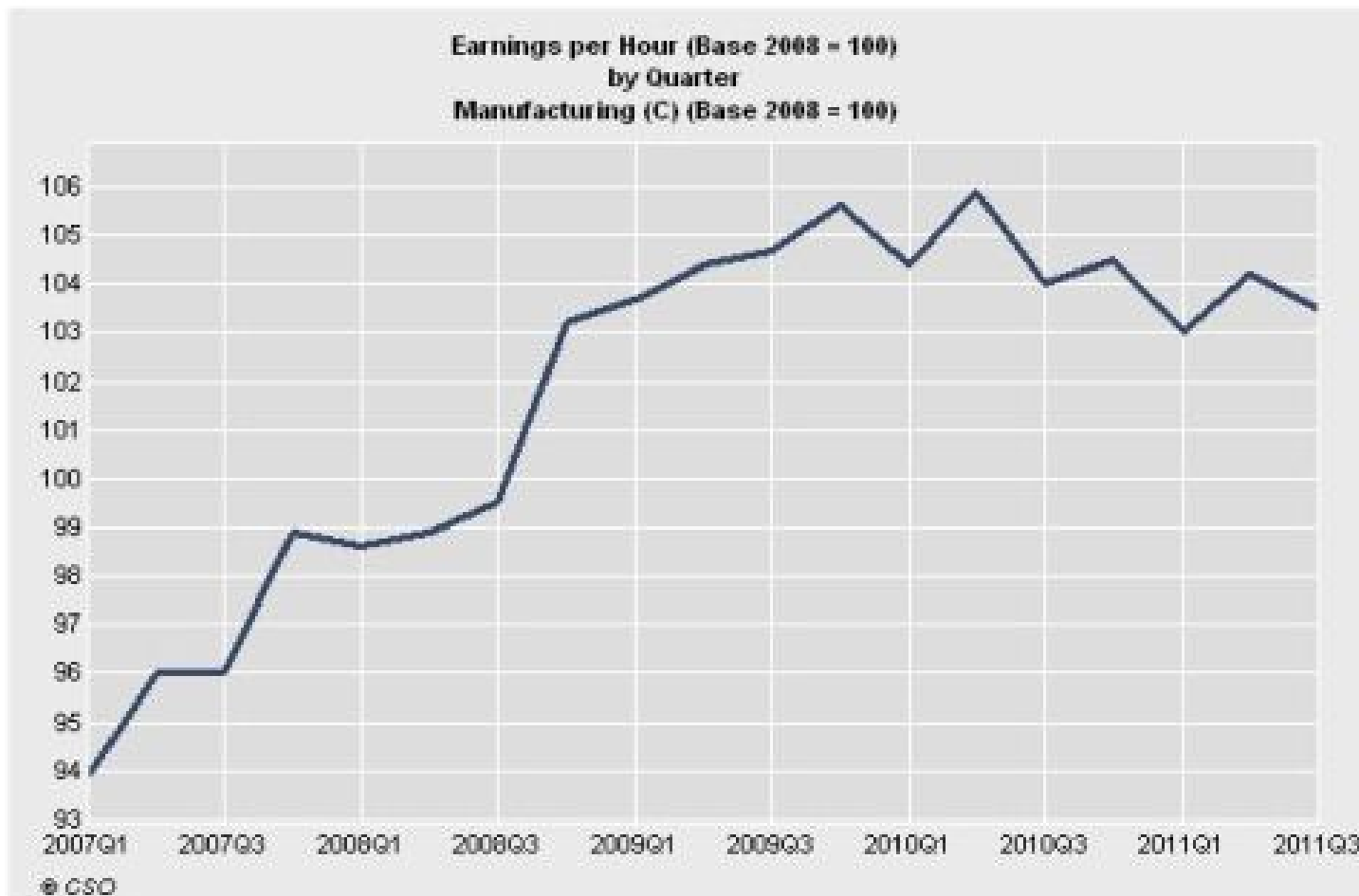


Capital inflows leading to overvaluation



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

Downward nominal rigidity (Ireland)



Austerity in action

Change in real GDP as share of initial real GDP

