

A World Of Risks

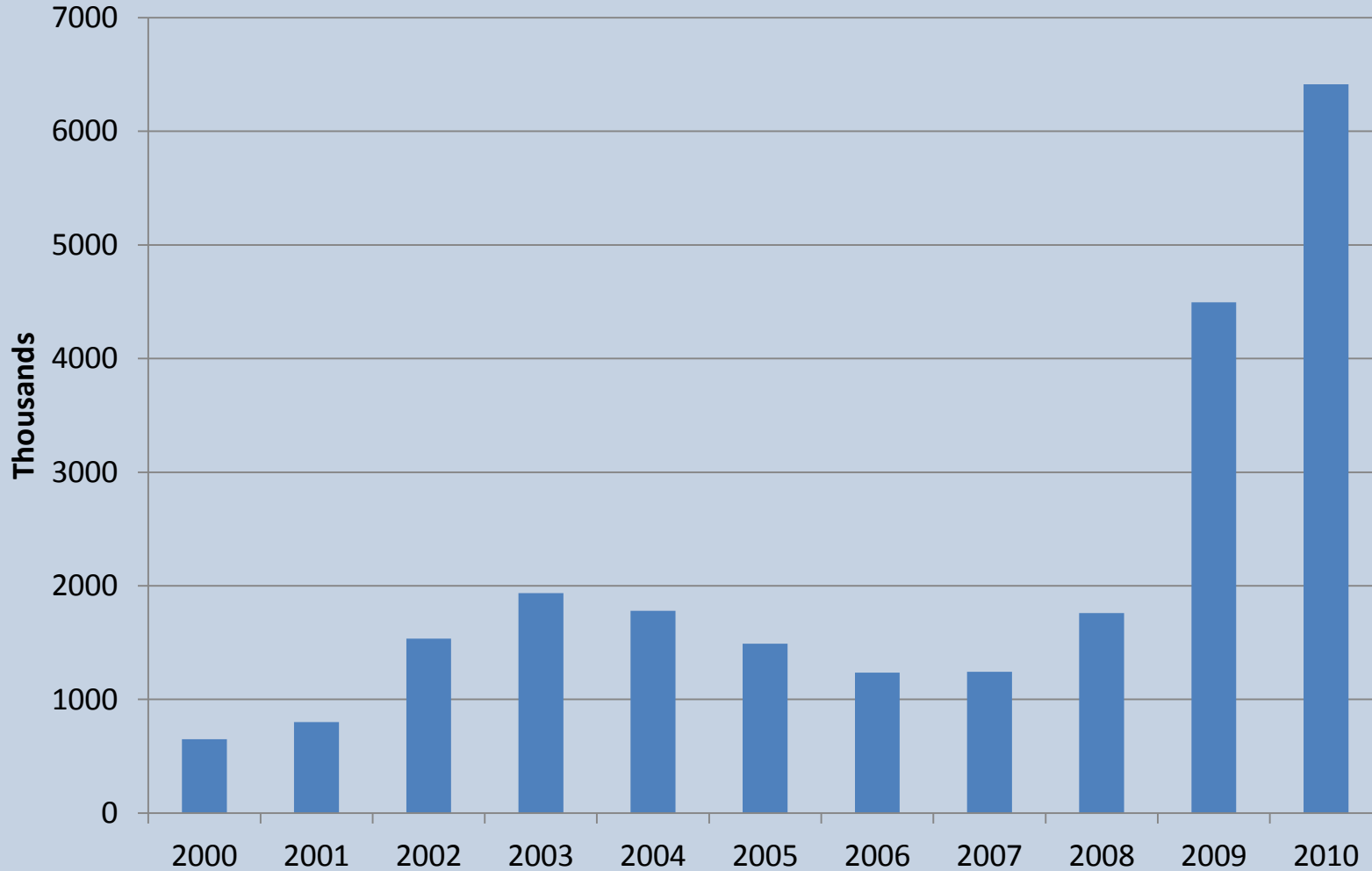
Prof. Paul Krugman

The Un-recovery

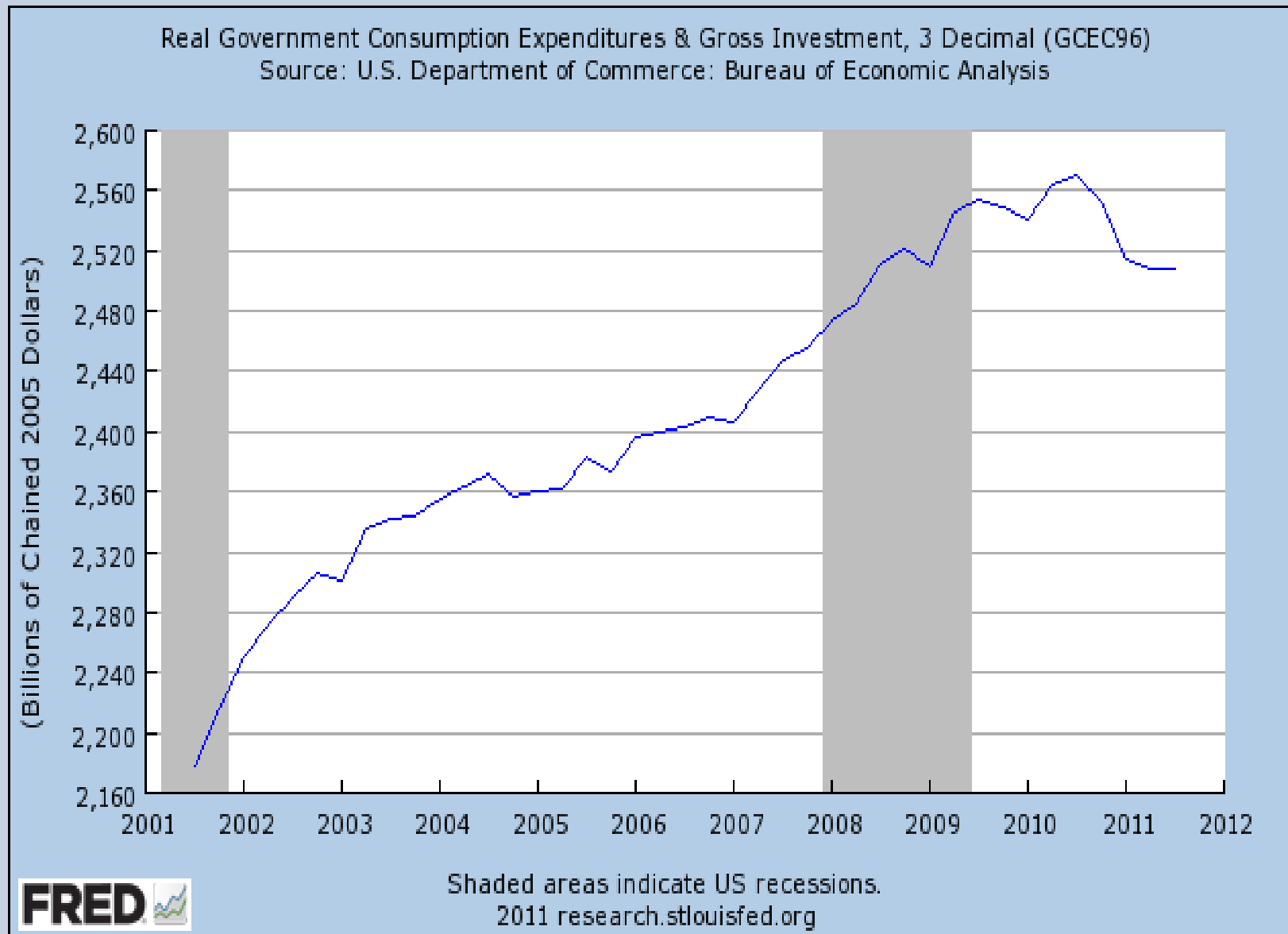


The crisis of long-term unemployment

US long-term unemployed

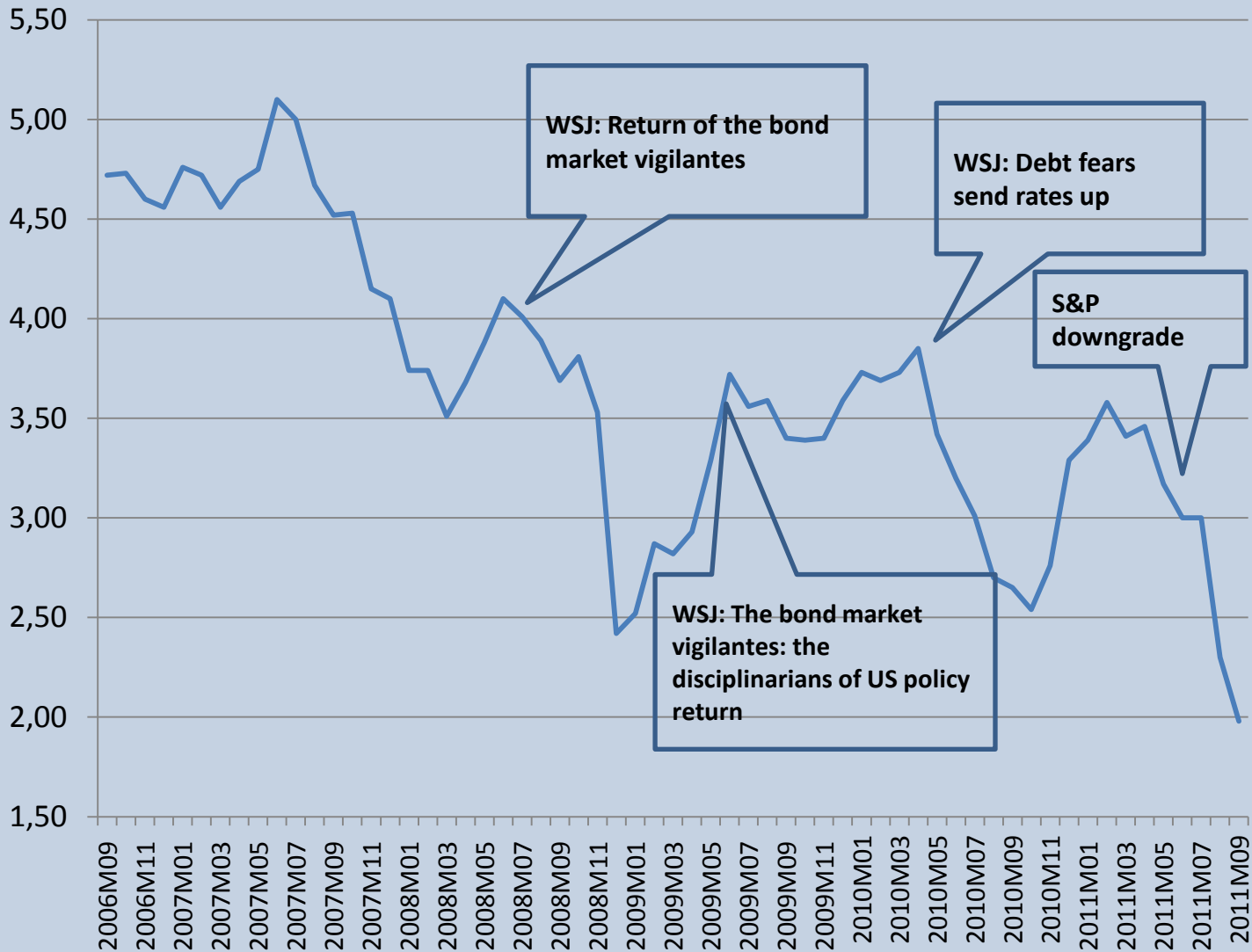


Stimulus? What stimulus?



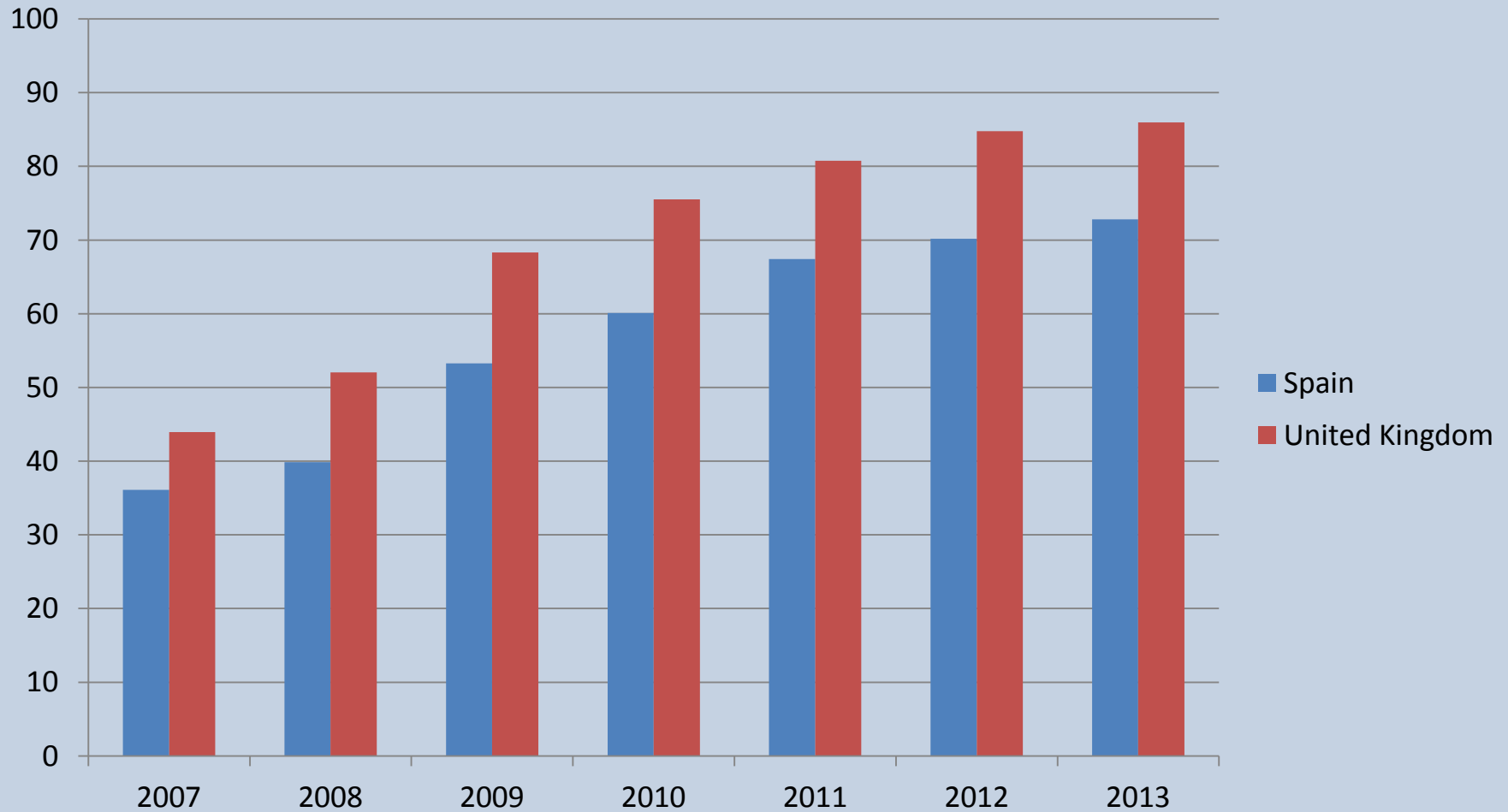
The imaginary fiscal crisis

10-year interest rate



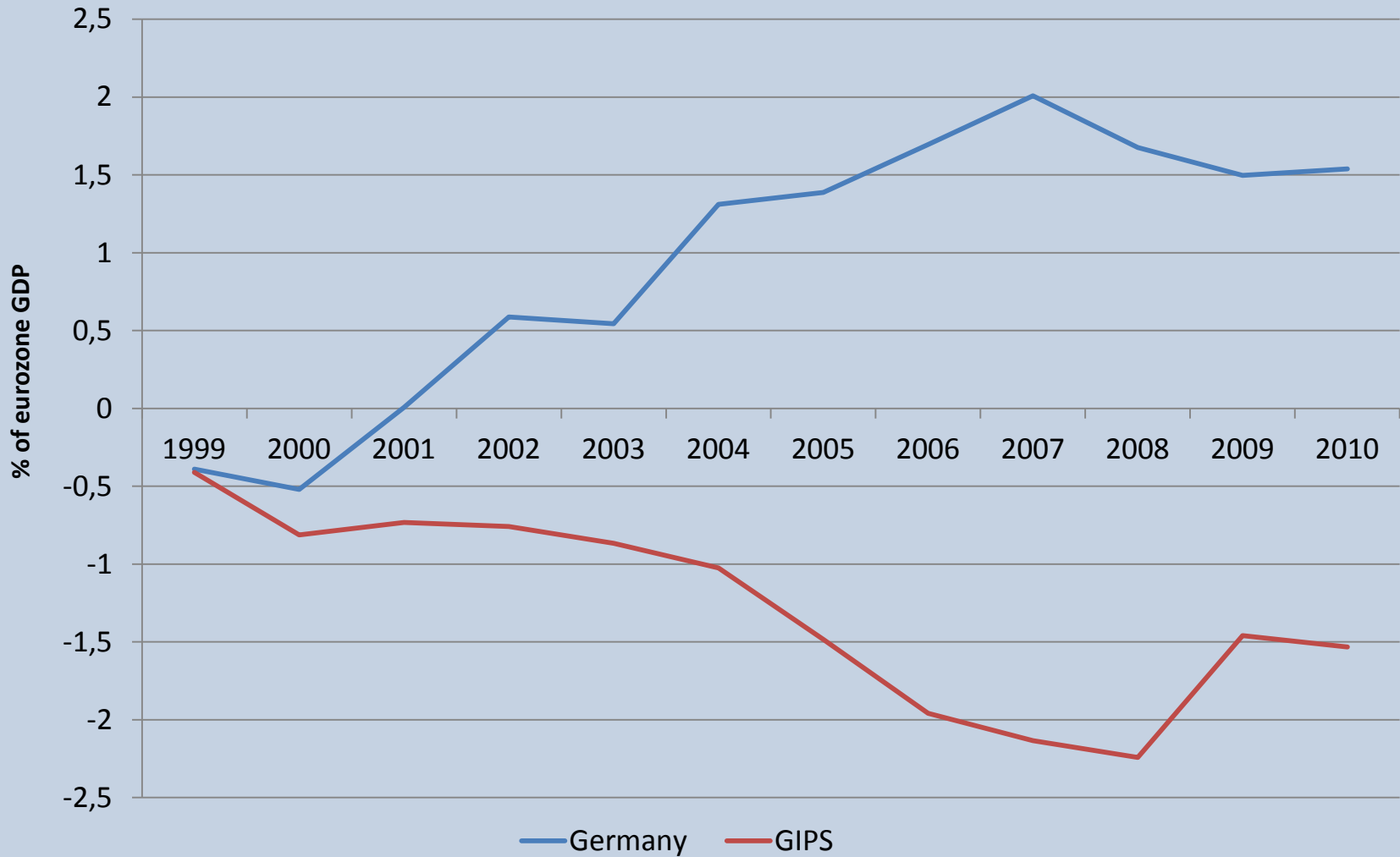
But what about problem debtors? It's a euro thing

Gross debt as % of GDP



The eurozone adjustment problem

Current account balances



What needs to happen:

- **Falling spending in debtors offset by rising spending by creditors**
- **Real exchange rate adjustment**

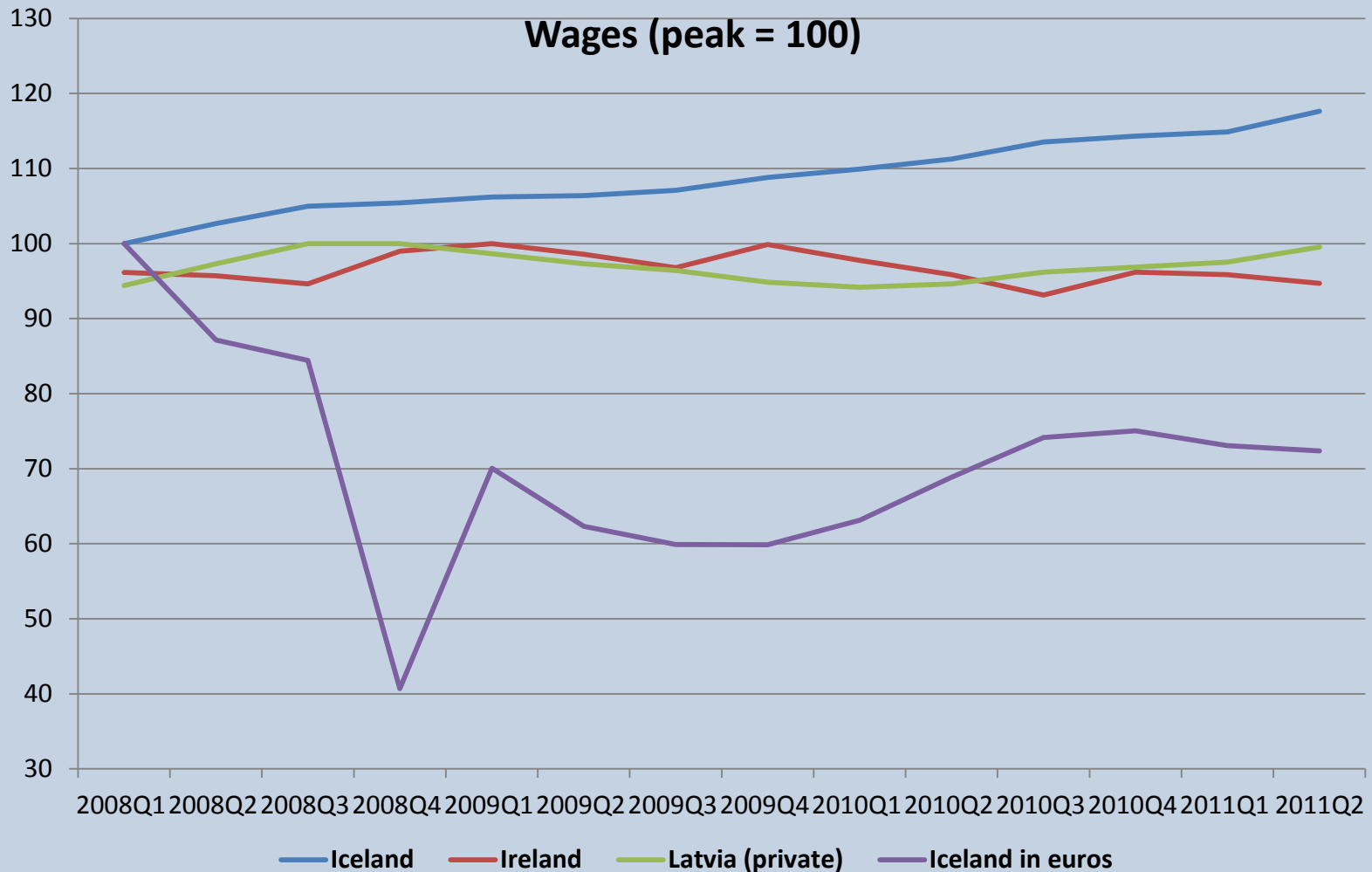
Actual euro policy:

- **Austerity in debtors without offset in creditors**
- **Attempted real exchange adjustment via internal devaluation**

What were they thinking?

- 1. Expansionary austerity**
- 2. Sustainability of imbalances**
- 3. Feasibility of internal devaluation**

The trouble with internal devaluation



Source: Ireland NSO, Statistics Iceland