Which Way To The Exit?

Paul Krugman
We’re going very badly in coping with the aftermath of crisis.
... which has led to persistent inadequacy of private spending
... and very low rates of return on safe assets
Fiscal profligacy did *not* cause the crisis
But policy makers have nonetheless insisted that austerity is the solution
Unfortunately, Keynes was right
There are no austerity success stories
Not even in terms of reassuring lenders

Ireland CDS spread
Europe’s fundamental problem isn’t fiscal, it’s balance of payments.

**European current account imbalances**

- **Germany**
- **GIPSIs**

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The graph shows the percent of EA GDP for European current account imbalances from 1999 to 2011. The lines indicate the trend for Germany and GIPSIs over this period.
And the severe problem of how to restore cost competitiveness
“Internal devaluation” is very slow and painful