

European Macroeconomic Policies

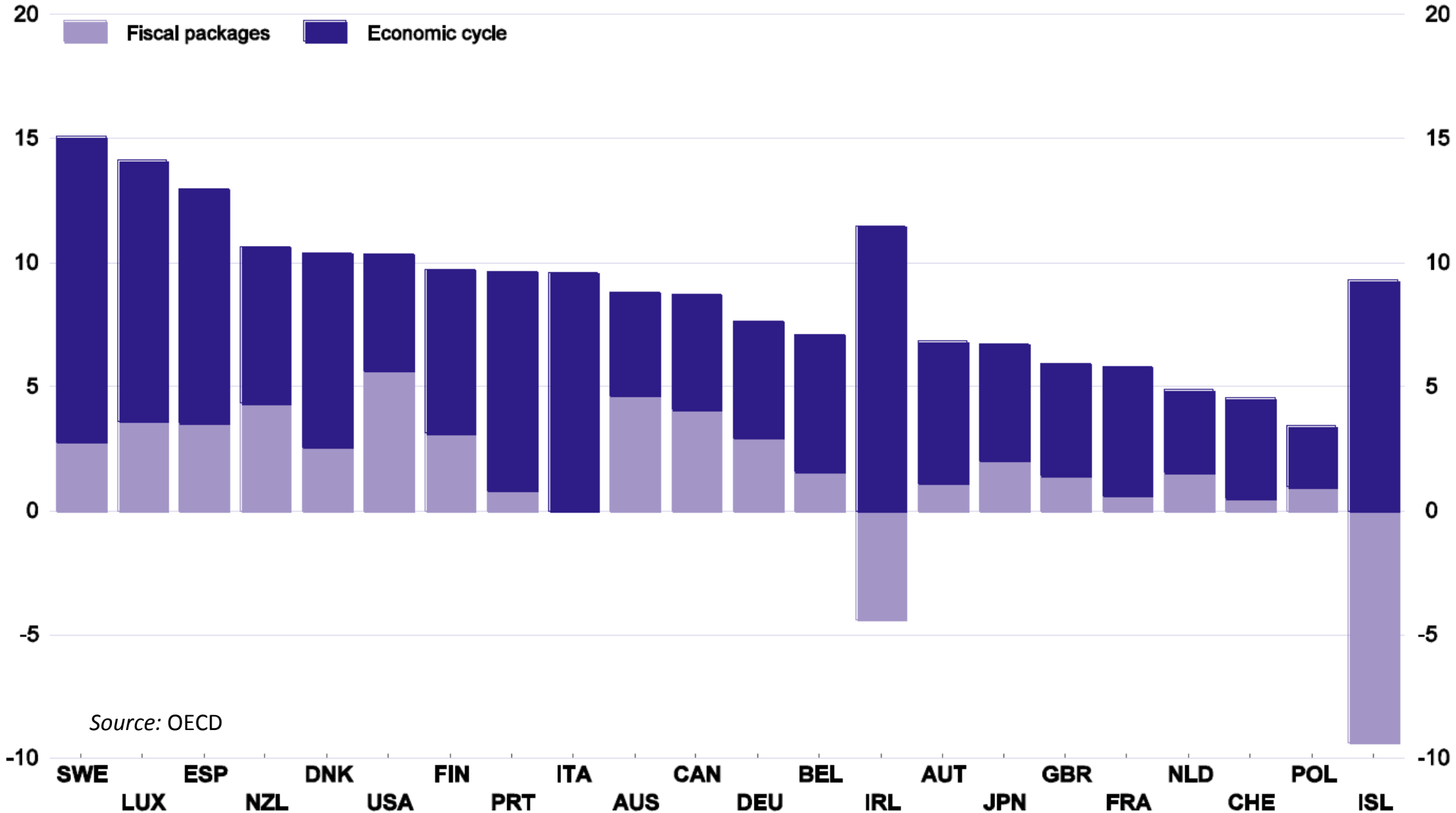
Martin Neil Baily and Natalie McGarry

The Brookings Institution

December 7, 2011, SAIS/Cournot Event

Those with Strong Safety Nets Relied on Automatic Stabilizers. The United States Passed a Large Stimulus Package

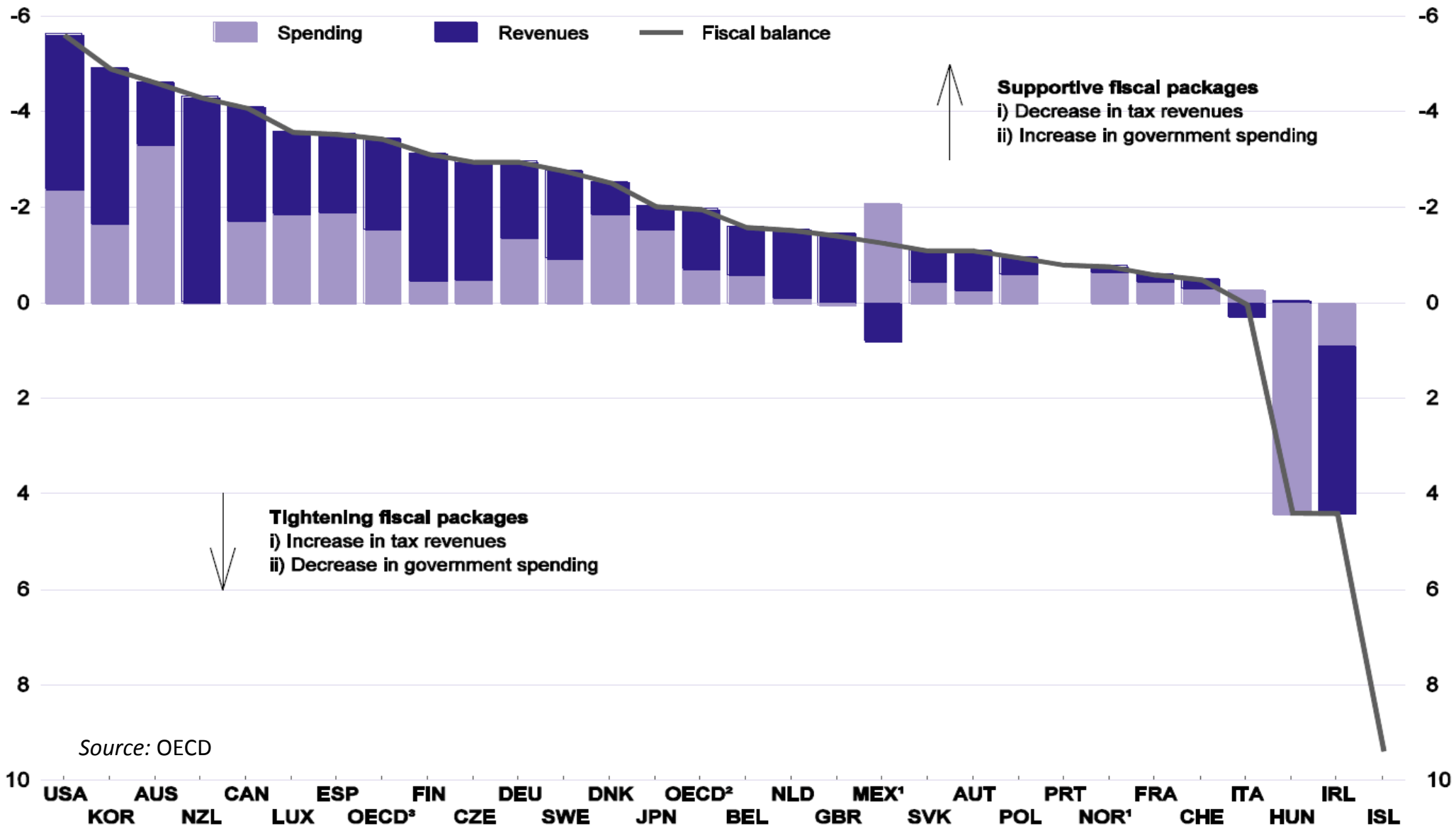
Automatic and discretionary fiscal impulse in response to the crisis
Impact on fiscal deficits cumulated over the period 2008-2010, as a percent of 2008 GDP



Source: OECD

The Cumulative Impact of Fiscal Packages was to Sharply Increase Fiscal Deficits

Cumulative impact of fiscal packages over the period 2008-2010 on fiscal balances as % of 2008 GDP



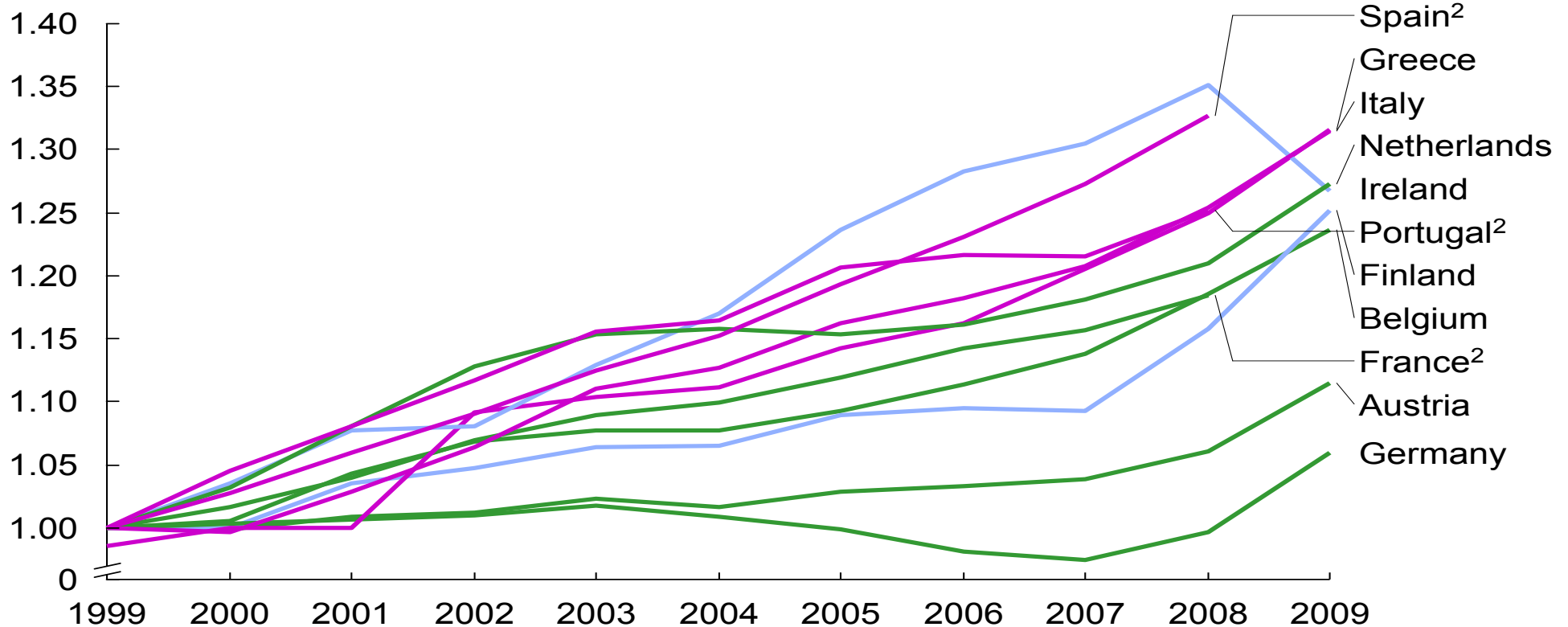
Source: OECD

The Competitiveness Disparity Problem in Europe is as Serious as the Debt Problem

Different trends in unit labour costs contributed to eurozone imbalances

Unit cost of labour
Index: 1.00 = 1999¹

— Northern Europe
— Continental Europe
— Southern Europe



1 Instead of 1999 = 1.00, Greece is indexed to 2000 = 1.00. This is because the exchange rate between the Greek drachma and the euro was fixed in June 2000

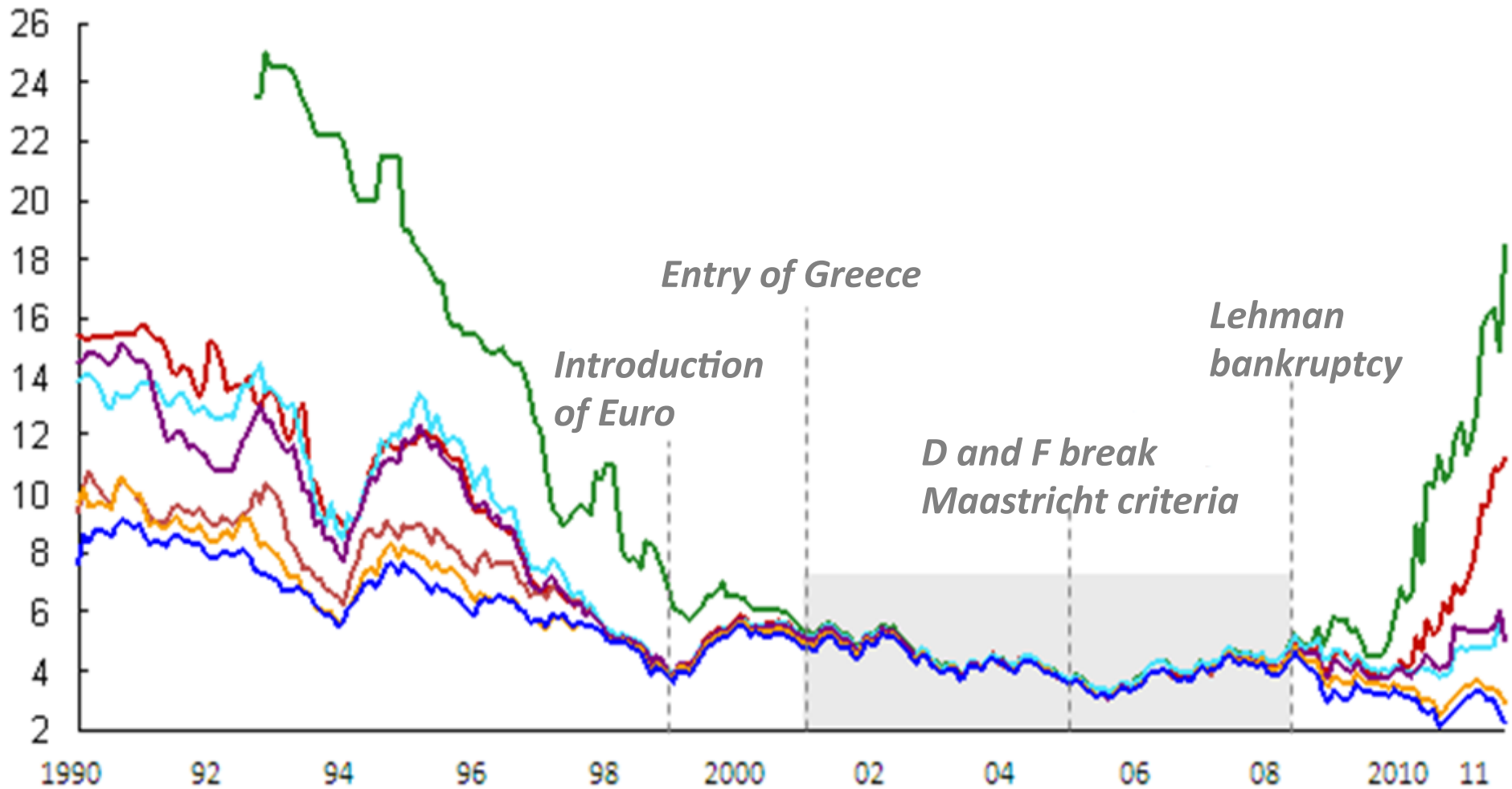
2 2009 data not available

SOURCE: OECD

The Introduction of the Euro Lowered Borrowing Costs in Many Countries and Encouraged Excessive Borrowing

Yields on 10-year government bonds
Percent, monthly

— Greece — Ireland — Spain — Germany
— Portugal — Italy — France



SOURCE: Bloomberg; Eurostat