

# Notes on European recovery

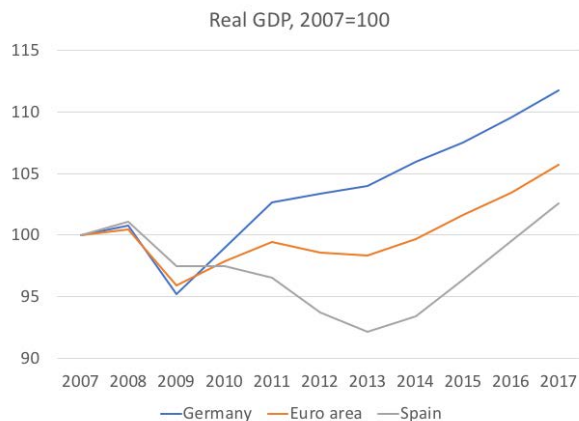
By Paul Krugman

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Here in the English-speaking world, most of us in the econo-pundit business have been focusing a lot on the US economy post-Trump, and secondarily on the British economy post-Brexit. But once in a while we ought to look further afield. And there's a pretty big story that isn't getting much play in the US, at least: the significant recovery finally taking place in Europe.

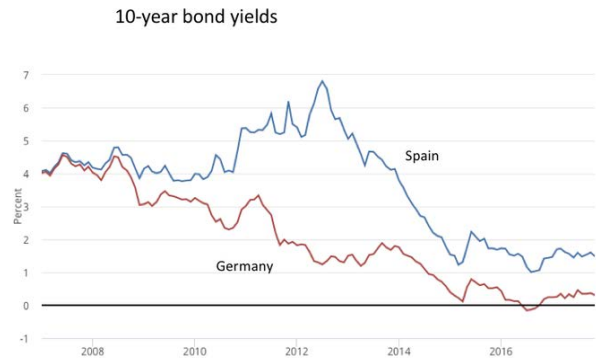
For years, the euro area drastically lagged the United States: where America began a sustained recovery in late 2009, Europe, buffeted by debt crises and the problems of misaligned costs among member nations, continued to suffer into 2013. Germany, of course, did well throughout – largely because its economy was supported by huge trade surpluses, largely at its neighbors' expense.

Since 2013, however, we've seen significant growth in Europe, with the fastest growth occurring in the areas (other than Greece) that were hardest hit by the euro crisis, especially Spain:

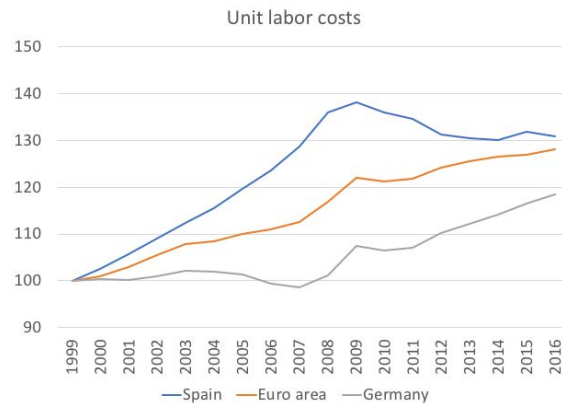


So what turned around in Europe? One important answer was three words from Mario Draghi: “whatever it takes”. The ECB’s promise to buy government bonds if necessary almost instantly ended a panic in southern

European bond markets, drastically narrowing the spread against Germany and setting the stage for growth:



The other thing that happened was internal devaluation – that is, relative deflation by countries that had been left overvalued by massive capital inflows and inflation during the pre-crisis years. Spain, in particular, gradually squeezed down its labor costs relative to the euro area as a whole:



This has in turn fueled a big export boom, especially in autos.

So is all well that ends well? No. Southern Europe paid a terrible price during the crisis years. The fact that internal devaluation eventually works, after years of high unemployment, is neither a surprise nor a vindication of the huge suffering during the

interim. If there was a surprise, it was political: the willingness of political elites to pay this price rather than break with the euro.

Still, it's important to be aware that Europe 2018 looks very different from Europe 2013. For now, at least, Europe is back as a functioning economic system.