

The Adjustment Problem

effects of the financial crisis on public finances

Prof. Dr Casper G. de Vries

Erasmus School of Economics

Duisenberg School of Finance

Tinbergen Institute

Issues

- Domino of bank bad loans to governments
- Adjustment problem
- Stagnation
- How to devalue in a monetary union?
- Trade as substitute for migration
- IMF to the fore?
- Structural adjustment to rules of the game
- Revised stability pact?

Adjustment Problem

- Replay of Bretton Woods, Gold standard
- Without devaluation escape valve
- Analysis of the Adjustment Problem
- Downgrades as signaling devices

Way Out

- Trade, but services
- Wage pact
- Structural measures
- IMF bridge loan, not EU
- Interplay stability pact and downgrades

It is just the Beginning