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**If you strip away the political correctness, Chapter Three of the IMF's World Economic Outlook more or less condemns Southern Europe to death by slow suffocation and leaves little doubt that fiscal tightening will trap North Europe, Britain and America in slump for a long time.**

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By Ambrose Evans-Pritchard |Â Telegraph

The IMF report "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation" implicitly argues that austerity will do more damage than so far admitted.

Normally, tightening of 1pc of GDP in one country leads to a 0.5pc loss of growth after two years. It is another story when half the globe is in trouble and tightening in lockstep. Lost growth would be double if interest rates are already zero, and if everybody cuts spending at once.

"Not all countries can reduce the value of their currency and increase net exports at the same time," it said. Nobel economist Joe Stiglitz goes further, warning that damn may break altogether in parts of Europe, setting off a "death spiral".

The Fund said damage also doubles for states that cannot cut rates or devalue "think Spain, Portugal, Ireland, Greece, and Italy, all trapped in EMU at overvalued exchange rates.

"A fall in the value of the currency plays a key role in softening the impact. The result is consistent with standard Mundell-Fleming theory that fiscal multipliers are larger in economies with fixed exchange rate regimes." Exactly.

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