

# FIVE GREAT STAGNATIONS

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**Introduction**

**Definitions**

**Beginnings**

**Stagnation 1: The Long Depression**

**Stagnation 2: The Interwar Recession**

**The Great Depression**

**Stagnation3: The Post-war Recession**

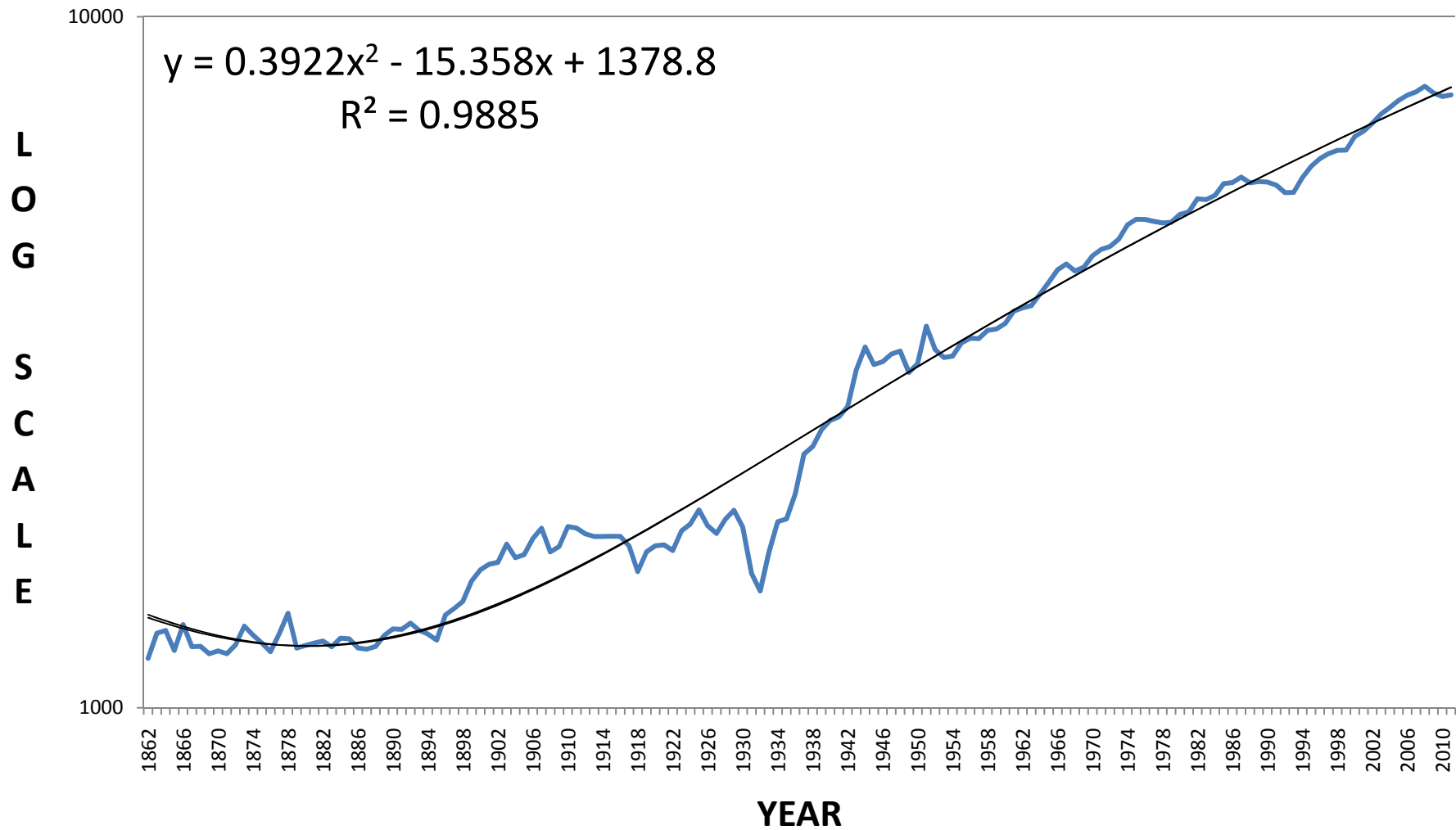
**Stagnation 4: The Wool Price Collapse**

**Stagnation 5: The Rogernomics Recession**

**Stagnation6: The Great Recession?**

**Lessons**

# NEW ZEALAND PER CAPITA GDP



# Defining the Phenomenon

1. GDP per capita
2. At Least 5 years of negligible growth.
3. I call them *stagnations*;  
also *long recessions* and *depressions*

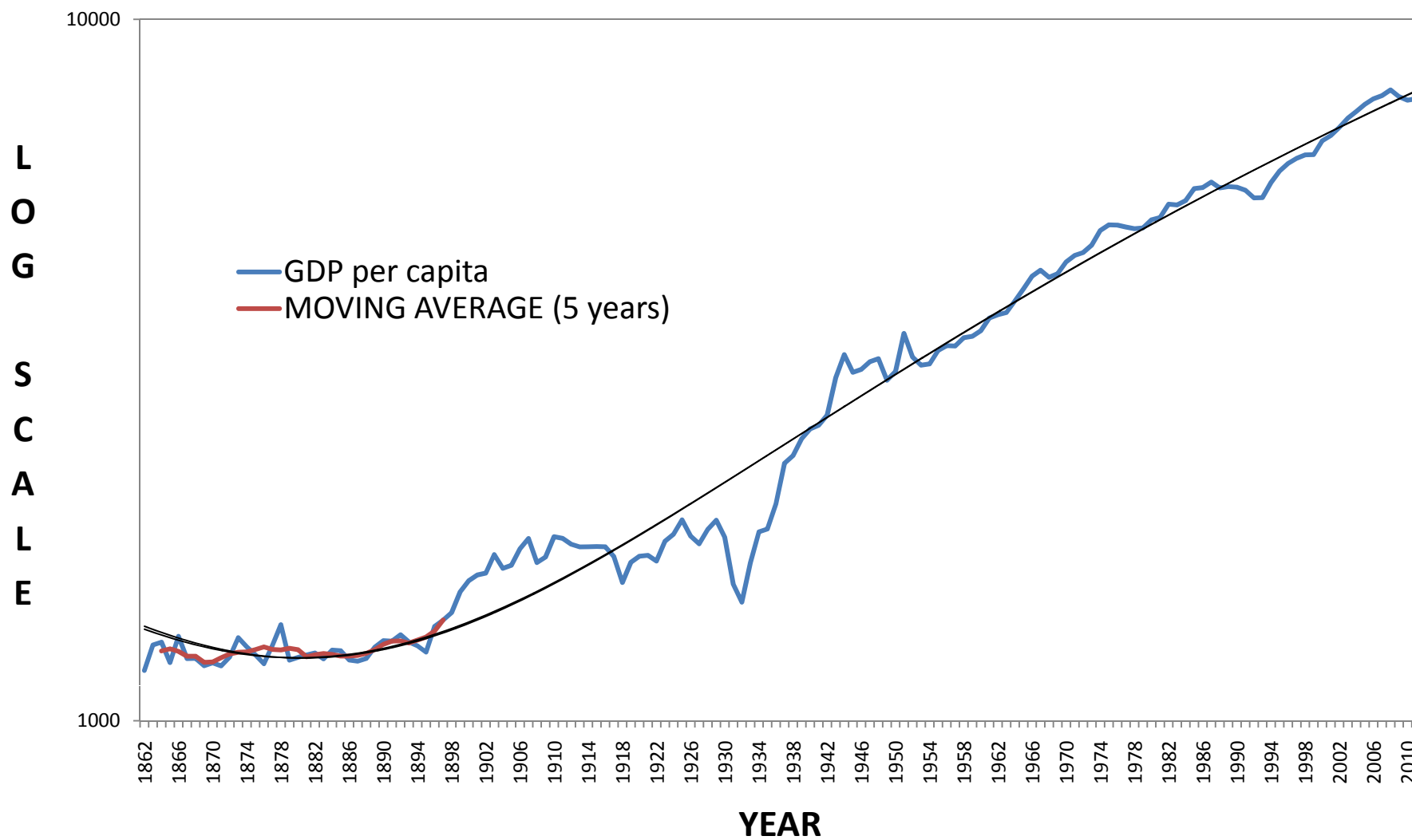
# Beginnings

Pre-market economy stagnated:  
end thirteenth century to end of the eighteenth.

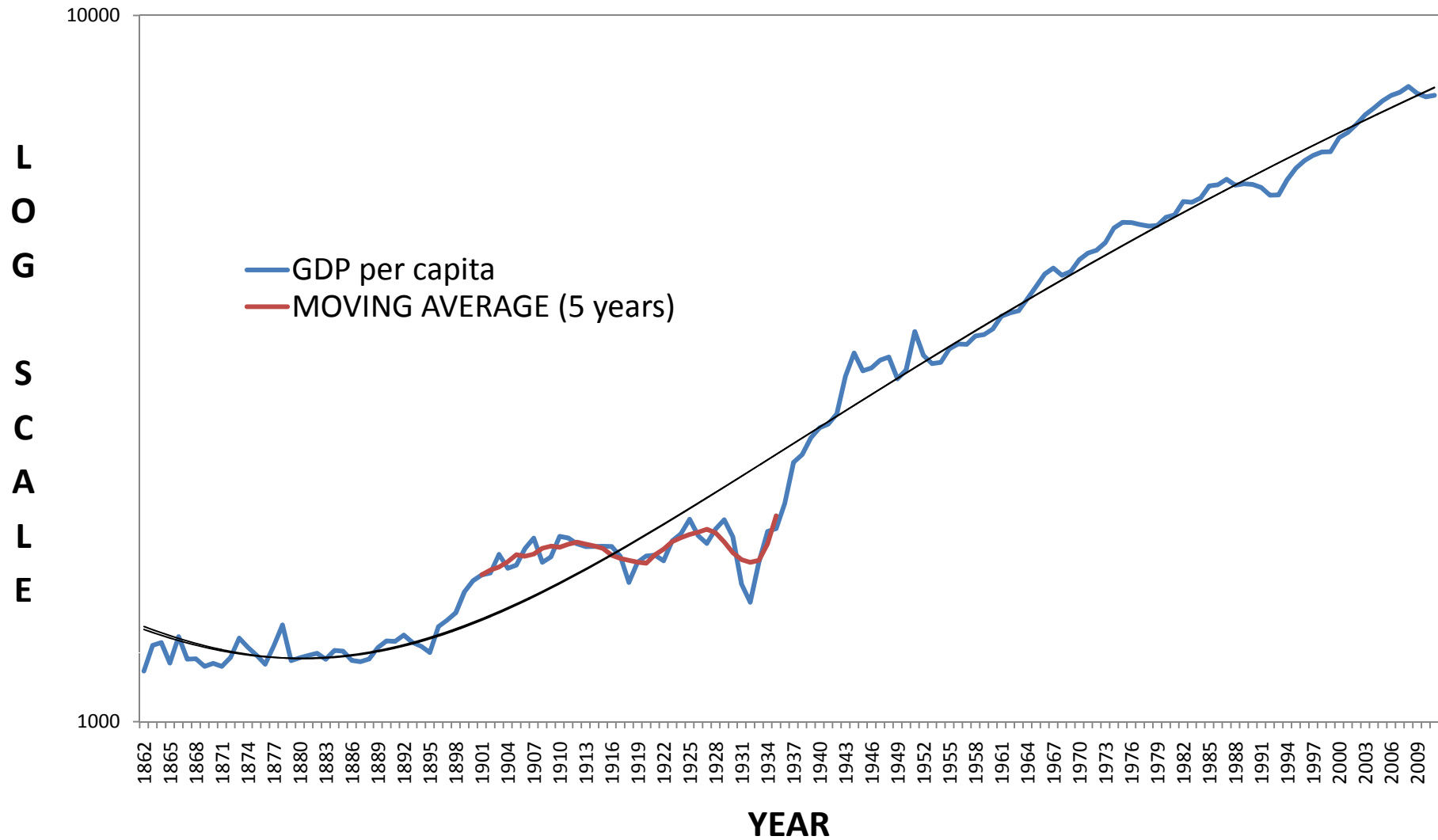
Early market economy had booms and busts

1860s – Gold and War Booms

# STAGNATION 1: THE LONG DEPRESSION



# STAGNATION 2: THE INTERWAR RECESSION



# The Great Depression

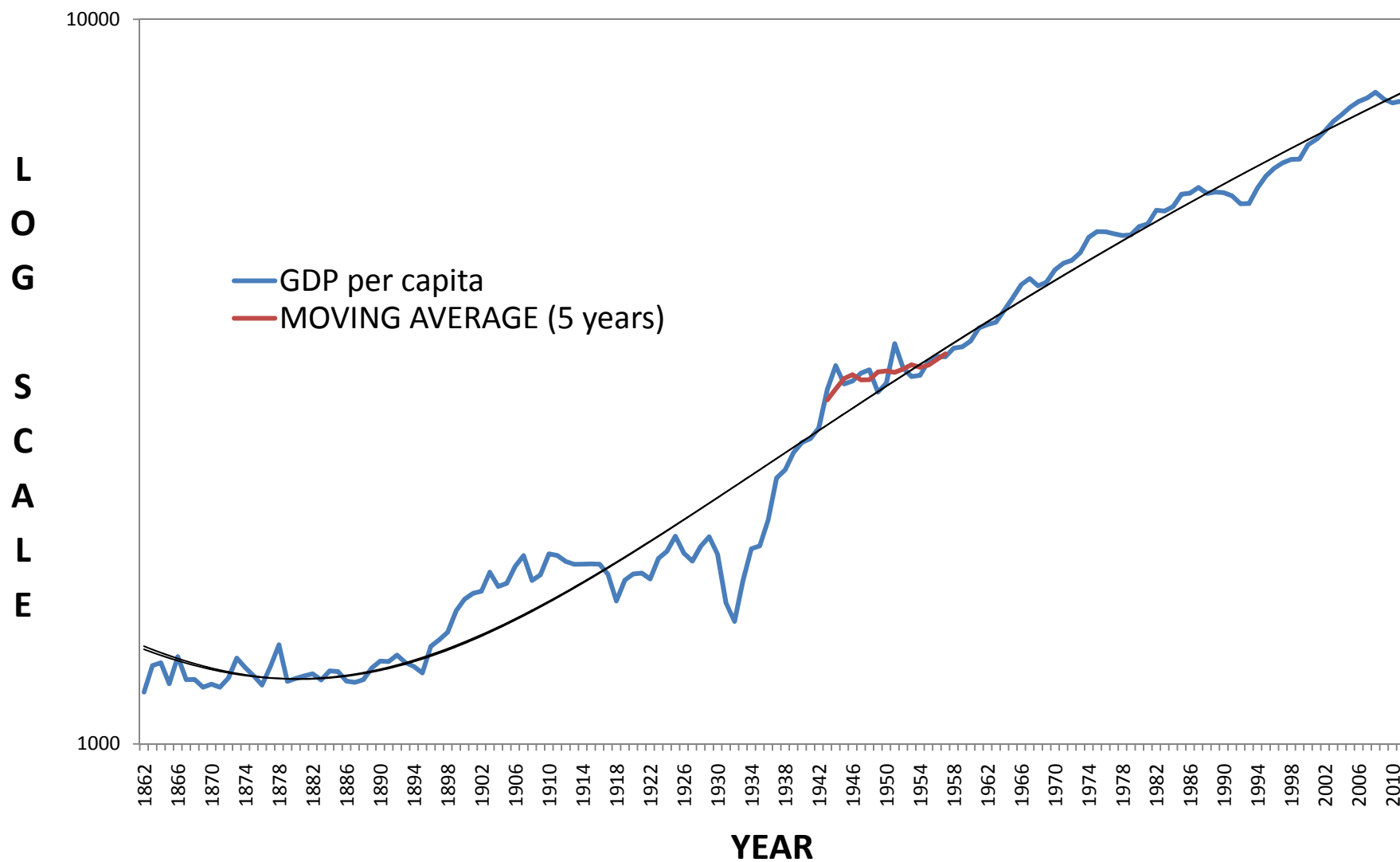
New Zealand entered over-borrowed with a sharp fall in the terms of trade.

Three major economic imbalances:

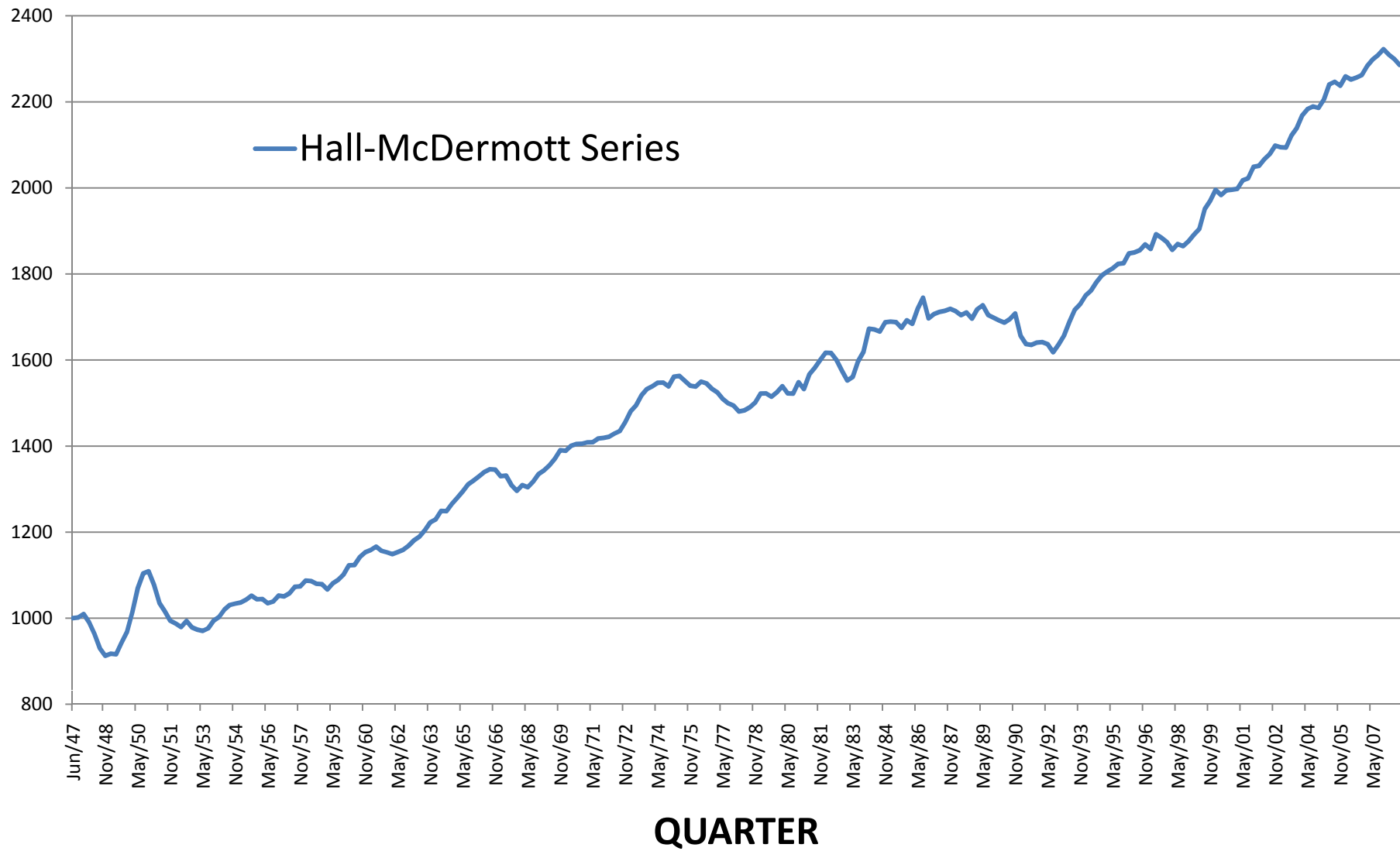
- a fiscal imbalance;
- a commodity price imbalance;
- land values were excessive and farm balance sheets over-leveraged.

There was no automatic market adjustment to these imbalances because of various rigidities in the fisc, wages, prices, the exchange rate, interest rates, the value of mortgages.

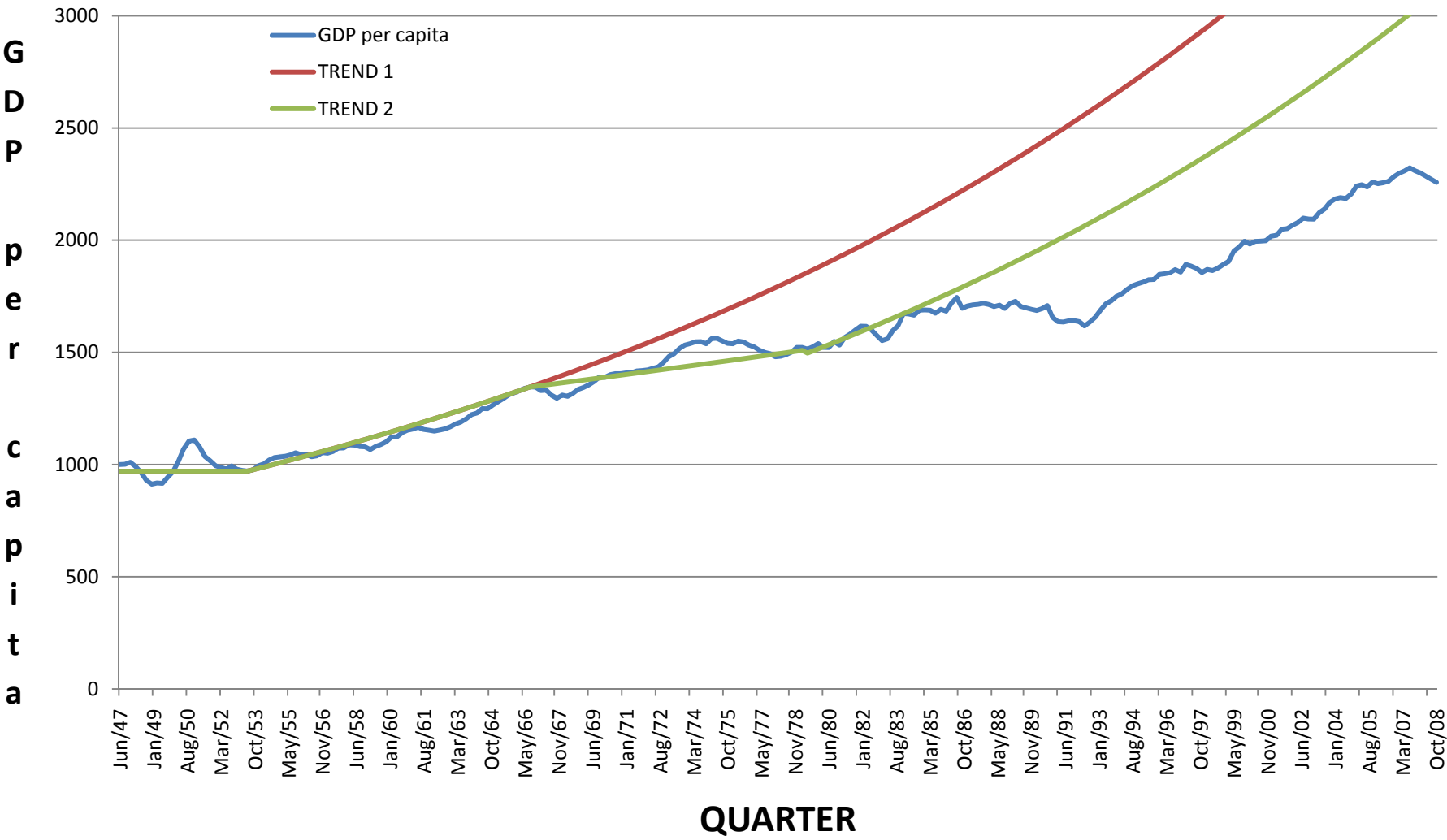
# STAGNATION 3: THE POSTWAR RECESSION



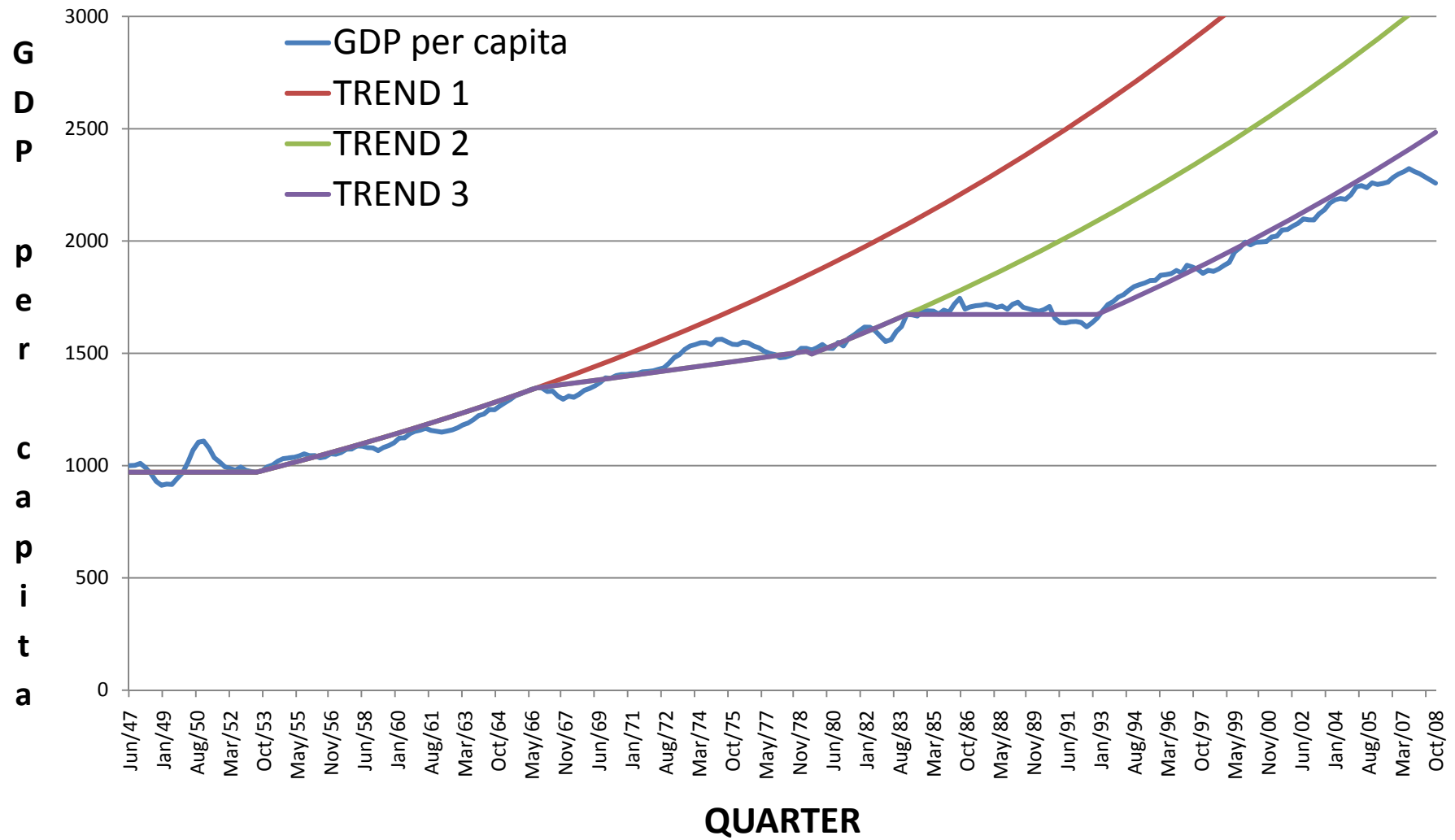
# QUARTERLY GDP per capita



# STAGNATION 4: WOOL PRICE CRASH



# STAGNATION 5: ROGERNOMICS RECESSION



## **Stagnation 6? The Great Recession**

September quarter 2007 – late 2012 or later.

The first five great stagnations totalled at least 60 years of the last 150. For over a third of New Zealand's measurable economic history, production has stagnated for long periods.

We should not be surprised if there is a sixth great stagnation sometime in our lifetime.

## **Stagnation Lessons**

1. What are the international conditions?
2. Pay attention to changing patterns of production in New Zealand.
3. Try to Assess the Underlying Growth Track
4. Think About the Government Sector
5. Look for Imbalances in the Private Sector

#### 4. Think About the Government Sector

- \* Crude Keynesian borrowing does not work during a long stagnation, because the rising debt is likely to get out of hand.
- \* The challenge is as much how to manage the public's expectations as to manage the public sector itself.
- \* If there is a stagnation there will be no extra output to buy-off demands. Some people are going to suffer – who?
- \* Think about the public balance sheet.
- \* An objective assessment of the adequacy of the government's balance sheet is not nearly as important as what the potential lenders think.

## 5. Look for Imbalances in the Private Sector

Farms

Banks and Other Financial Institutions

Businesses

Housing

## **Conclusion**

Until balance sheets are better balanced the economy will have difficulties recovering.

Even more important may be the condition and the recovery of the world economy.

## 6. There are Positive Opportunities During a Stagnation

There was considerable progress during all the past stagnations, not only favourable structural change, but also social gains.

If we can avoid high unemployment and gross inequality, a long depression need not cause personal depression.

Are we in a long recession?

‘Perhaps’. The probability is higher than the conventional wisdom thinks.

Even if we are not, consideration of the possibility is a lot more useful than blindly assuming nothing has really changed.

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