SECULAR STAGNATION

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Alvin Hansen, Harvard economist, first used the term “secular stagnation” in 1938 to mean “a check to economic progress as investment opportunities were stunted by the closing of the frontier and the collapse of immigration.” (P.W., qtd. in “Secular Stagnation”)

“Secular Stagnation” is “a market economy with a [long-term] lack of demand.” (“Secular Stagnation”) (“Secular” is from Latin *saeculum*, meaning “century” or “lifetime”—i.e., long-term.)

Secular stagnation does not *cause* a long-term lack of demand; it *is* a long-term lack of demand.

So what are the causes of lack of demand?

slowing technological change

Investments in research and development stimulate growth. Technological change as the driving force behind economic growth.

So why is growth slowing, given the computer revolution, AI, robotics, biotech, etc.?

income inequality

“A more equal income distribution operates to increase aggregate demand.” (Summers “Final Thoughts”) “. . . redistribution of income and wealth toward the top [weakens] aggregate demand.” (Stiglitz “The Myth”)

An example is the Taxpayer Relief Act of 1997. It lowered the 28% tax rate for capital gains to 20%. (“Economic Policy”) That benefited the wealthy much more than the middle and lower classes.

Also, “rising inequality [increases] saving . . .” (Summers “Setting”) That’s because the wealthy tend to save excess money rather than spend it. (“Secular Stagnation”)

So, when the Great Recession hit in 2008, “demand was also depressed by the huge increases in inequality . . .” (Stiglitz “Beyond”)

And “more active redistribution and pre-distribution programs [were needed]—addressing the weakening of workers’ bargaining power, the agglomeration of market power by large corporations, and corporate and financial abuses.” (Stiglitz “The Myth”)

2000: deregulation of derivatives

The Clinton Administration repealed repeal of the Glass-Steagall Act, thereby deregulating derivatives contracts. It wanted to remove “systemic risk arising from legal uncertainty surrounding derivatives contracts.” (Summers “Setting”)

But “Inadequate financial regulation left Americans vulnerable to predatory banking behavior and saddled with enormous debts. . . . it was private-sector lending, especially by the big banks, that underlay the financial crisis.” (Stiglitz “Beyond”)

(Summers disagrees: “I have not seen a convincing causal argument linking the repeal of the Glass-Steagall Act and the financial crisis.” Summers “Setting”)

household debt

“Households [that are] paying down debt (i.e., deleveraging) increase savings and are spending less . . .” (“Secular Stagnation”)

reducing investment

“. . . businesses react to the lack of demand by investing less. . . . This was a major factor in the slow U.S. GDP growth during 2009-2012 following the Great Recession.” (“Secular Stagnation”)

demographics

“Aging populations . . . spend less per capita . . .” (“Secular Stagnation”)

In response to the Great Recession of 2007-2009, “policymakers failed to do enough even to prevent poor households from losing their homes. . . . there was a risk that those who were so badly treated would turn to a demagogue.” (Stiglitz “The Myth”)

addendum

I found Stiglitz and Summers’s use of the term “structural” to be confusing. The word occurs in these instances.

(1) WWII “brought about a structural transformation, as the war effort moved large numbers of people from rural areas to urban centers and retrained them with the skills needed for a manufacturing economy . . .” (Stiglitz “Beyond”)

(2) “Stiglitz and I agree that Alvin Hansen’s prediction was not borne out after World War II because of a combination of expansionary policy and structural changes in the economy.” (Summers “Final Thoughts”)

(3) In 2013 Summers resurrected “the idea of secular stagnation to suggest that the economy . . . required some combination of fiscal expansion and structural change to sustain full employment.” (Summers “Final Thoughts”)

(4) “We must think hard about fiscal policies and structural measures to support sustained and adequate aggregate demand.” (Summers “Setting”)

(5) “structural factors” causing secular stagnation: “inequality, high profit shares, changes in relative prices, and global saving patterns.” (Summers “Final Thoughts”)

The use of the word “structural” in instances (1) and (2) suggests that it refers to the three-sector model (aka the Fisher-Clark thesis; the theory of three sectors of economic activity: agricultural, manufacturing, and services). The instances seem to be referring to the transition from an agricultural economy to a manufacturing economy. Similarly, Stiglitz says that the economy in 2008 was “experiencing a transition from manufacturing to services . . .” (Stiglitz “The Myth”) (Stiglitz also says that some areas of the economy were “suffering from the consequences of deindustrialization.” [“The Myth”] Is “deindustrialization” the same as the “transition from manufacturing to services”? If so, what are the consequences of demanufacturing?)

The use of the word “structural” in instances (3), (4), and (5), however, suggest less massive changes—changes not *between* agricultural, manufacturing, and services sectors but *within* one of them.