

Secular Stagnation: History and Reality

ABSTRACT

Is secular stagnation a real concern? We should start with the observation that in the long run secular stagnation has been historically the “normal” situation. Most economies of the past “stagnated” in the sense that their growth rates were zero or negligible; growth has become the norm only in the past two centuries in the West, and for an even shorter period in Asia and elsewhere. In asking the question whether it would be possible that the clock be turned back and return to the stagnation of the past, we need to ask why sustained growth was absent through most of human history and what factors were responsible for the phase transition that turned the world from a stationary (stagnant) state to one of sustained growth. I isolate three factors: population dynamics, rent-seeking, and limitations on human knowledge. All three of those are no longer in force. Long-run (secular) stagnation is therefore highly unlikely even if measured GDP growth rates may fluctuate. Yet this prediction is contingent on institutional and political factors being aligned with technological progress, which is becoming increasingly questionable.