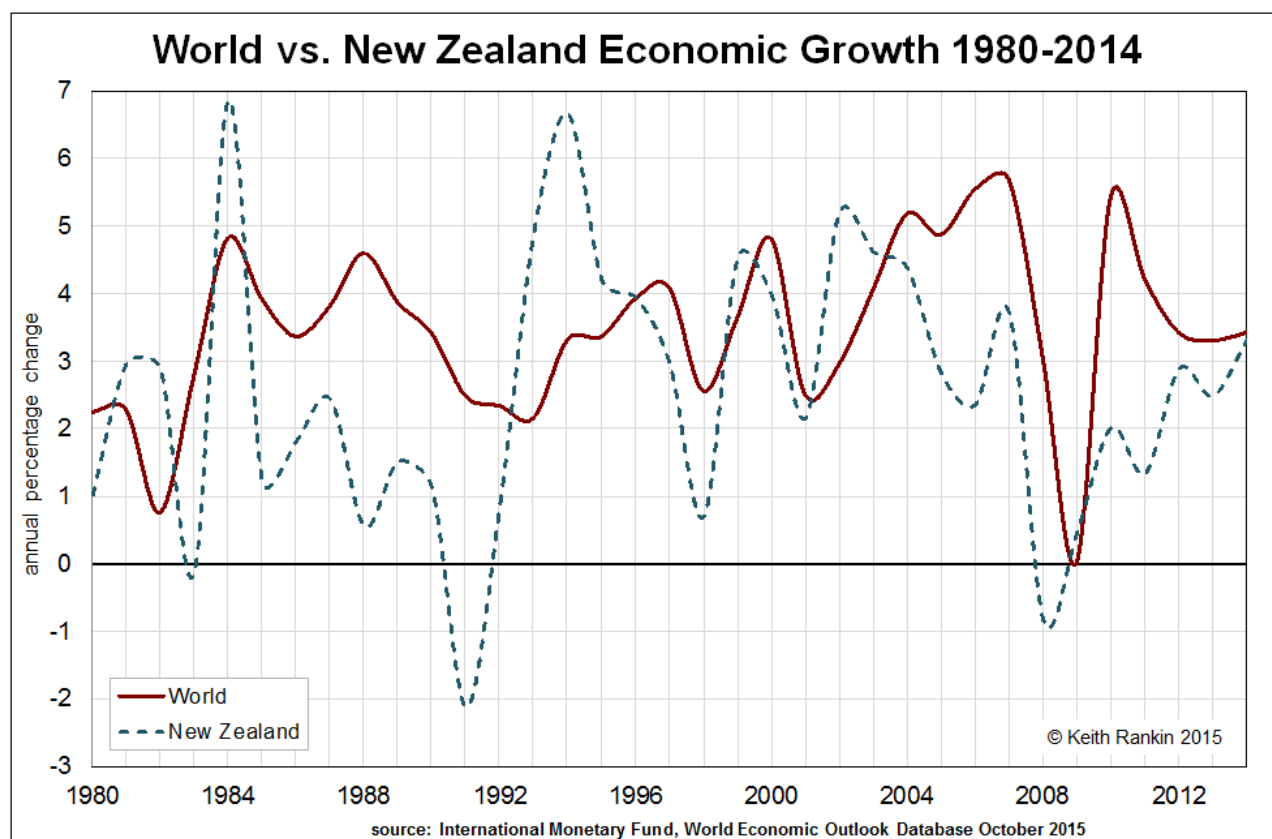


Chart for this Week: World and New Zealand Economic Growth

Keith Rankin, 14 October 2015



[Economic Growth from 1980 to 2014](#)

To most macroeconomists, politicians and business journalists, economic growth is the most important economic performance indicator. While it's not entirely wrong that this should be so, growth is a heavily nuanced concept. Sustainable economic growth is not an oxymoron. Indeed it's definitely better than unsustainable growth and unsustainable non-growth, and in many situations is better than sustainable non-growth.

That wider debate is not what this chart is about. Rather it's about economic performance in a conventional sense. If we discount all the clearly identifiable adverse world economic events we can see a normal global growth rate of around four percent per year in this late 20th early 21st century era. In global terms, contractionary conditions exist when annual growth falls below three percent, meaning that significant unemployment emerges in a number of relatively advanced national economies.

Thus we see the world contractions of the early 1980s, the early 1990s, the early 2000s, and the global financial crisis of 2008-09. We also see dips in world growth with the Asian economic crisis of 1998, the Eurozone crisis from 2012, and the financial crisis of 1987 that hit New Zealand particularly hard.

Looking at New Zealand, the main points to note relate to when New Zealand was 'performing better' than the world as a whole, and when it was doing worse.

In the late Muldoon years (1980-84) – the years in which New Zealand was said to have been a complete "basket case", and which were used to justify the subsequent neoliberal revolution – New Zealand outperformed the world as a whole. The dip in 1983 was smaller than the 1982 dips in other western countries (indeed was a result of the global contraction), and the 1984 recovery was particularly strong.

In the neoliberal (Rogernomics and Ruthenasia) years – 1985 to 1992 – economic performance in New Zealand was way below that of the world as a whole, even allowing for the world contraction and (in some

countries) banking crises of the early 1990s. The bounce-back in 1993 took place in an election year, and only after Ruth Richardson had had her wings clipped. (Indeed, and despite this late economic recovery, the 1993 election had arguably the biggest left-wing vote ever in a New Zealand general election; not enough to unseat the National government though!)

Growth in New Zealand in the mid-1990s was fuelled by the huge labour reservoir (mass unemployment and acceptance of low wages) created in the two Ruthenasia years (1991-92); the resumption of growth was not due to any innate benefits of neoliberal reform.

While New Zealand was hit badly by the Asian financial crisis, it recovered very quickly after the 2001 ('9/11 year') world crisis, thanks in large part to the growth in international education services and also facilitated by the increasingly sophisticated cinema and related industries. In those years, New Zealand achieved a balance of trade surplus in tradable services. An important driver here was the very low exchange rate of the New Zealand dollar in 2000 and 2001.

In the global (finance-driven) boom of 2004-07, relative New Zealand performance fell away sharply, mainly due to substantial decline in New Zealand's tradable sector. New Zealand fully shared in the finance-driven economy of the time. The real economy only picked up – briefly – with the 2007 dairy boom.

This decade New Zealand's comparatively sluggish growth has reflected the fact that the global financial crisis became a largely western-world economic crisis. By 2014 New Zealand was right on the global growth norm. I'm guessing that, as in the second half of previous decades, New Zealand will fall below world growth norms. This prediction is qualified by the possibility of a recovery facilitated by this year's falling exchange rate. World growth may stay at present levels for another year or two, but the next financial crisis is as inevitable as the previous one.
