

NEWS

Is this a depression?

Worst
since
1930s:
Eslake

ANALYSIS

BY SEAN FORD

ABOUT 39,000 Tasmanians receiving Job-Seeker or youth allowance payments.

Melbourne in lockdown.

More than 15,000 new coronavirus cases in just one day in just one US state (Florida).

No vaccine, and no certainty of one.

The pandemic and its economic effects are so deep and widespread, they raise the question: are we "just" in recession, or are we headed into a depression?

A depression is a dreaded term in economics, with the most recent widely believed to have been the Great Depression, which started in 1929 and ran well into the 1930s.

In Australia, unemployment hit about 30 per cent.

In the US, almost half the banks failed.

A commonly used definition of a recession in Australia is two consecutive quarters of economic contraction, as measured by gross domestic product.

Australia is in one, along with much of the world.

"The Australian economy is going through a very difficult period and is experiencing the biggest contraction since the 1930s," Reserve Bank governor Philip Lowe said on July 7.

"Since March, an unprecedented 800,000 people have lost their jobs, with many others retaining their job only because of government and other support programs.

"Conditions have, however, stabilised recently and the downturn has been less severe than earlier expected.

"Notwithstanding the signs of a gradual improvement, the nature and speed of the economic recovery remains highly uncertain."

Even as he commented, coronavirus cases were surging in Victoria, leading up to (at this stage) a six-week lockdown of Melbourne.

Recession, or looming depression?

DEPRESSIONS

Economist Saul Eslake says there is a widespread



HARD TIMES: An Australian family standing outside a tin shack during the Great Depression. **Picture:** National Library of Australia.

view a depression is an unusually deep or long recession.

Writing in 2008, in the Global Financial Crisis period, Mr Eslake said: "Googling 'difference between recession and depression' ... throws up two possible criteria for distinguishing a depression from a recession ..."

He said they were a decline in real gross domestic product of more than 10 per cent or a contraction in real GDP which lasted for three years or more.

Mr Eslake said the Great Depression qualified on both counts.

However, he believed the difference between a recession and a depression was about more than the length or depth of the downturn.

"Rather, the distinction hangs on the causes and other characteristics of the downturn," he wrote.

"In particular, a recession is nearly always the result of a period of tight monetary (interest rates) policy, while a depression entails a significant and protracted asset price cycle.

"It involves a contraction in credit or debt and it is characterised by a decline in the general price level, as well as in economic activity."

AND NOW?

Mr Eslake does not think a depression is on the way now, going by his 2008 definition.



DOWNTURNS EXAMINED: Economist Saul Eslake says recessions and depressions have different causes.

"We have without doubt experienced our most severe recession since the Great Depression, as measured by the decline in employment and - probably, when the figures are released in early September - the contraction in economic activity as measured by real GDP," he said.

"But it will also likely have been one of our shortest recessions ever, running between March and May if it turns out that, as the weekly payroll data suggests, employment stopped falling in the second half of April and assuming that we don't see another decline in employment that takes us back below the late April level.

"Moreover, the economic hole we are now trying to climb out of is one we can get out of, with appropriate and appropriately forceful

economic policies ..."

Mr Eslake said that was assuming the rest of the world, especially the more economically important parts like the US, China and Europe, did not "stuff it up" and assuming an effective vaccine was eventually discovered.

"The RBA is doing the right things and is committed to keeping doing the right things for as long as necessary; the federal and state governments have so far mostly done the right things, although we are yet to see a commitment from them to keep doing the right things for as long as it takes," he said.

Even with the right policy settings, he expected Australia would have an extended period with slower than desirable economic growth "and in which un-



FOUNDATION STONE: A booming housing market is not expected to save the day in this downturn.

employment remains higher than we'd like it to be, unless we choose policy settings specifically targeted towards tackling that problem".

TAILWINDS WEAKEN

"That's because, in my view, three of the tailwinds that helped us achieve nearly 30 years of economic growth without a recession - as popularly defined - won't be there."

The three factors were above average population growth, a strong economic relationship with China and the housing boom.

He said rising property prices and household debt were unlikely to underpin economic growth as they had for most of the past 30 years.

"So, if we want to achieve faster rates of economic growth - fast enough to get

us back to something that looks like full employment - then we are going to have to do it by lifting productivity," Mr Eslake said.

"And that's no less true for Tasmania than it is for Australia as a whole.

"Plus we also have to think about a few other questions that are important for us, such as do we really want 17 per cent of (Tasmanian) employment (compared to 10 per cent of the rest of Australia's) to depend, directly or indirectly, on tourism, given that tourism is likely to be one of those industries whose prospects are permanently impaired by the pandemic?"

"And if the answer to that is no, then where will those jobs come from?"

"To be honest, I'm not confident I know the answer to that."