Secular Stagnation – Experiences of Greece, Portugal, Spain & Finland

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The secular stagnation hypothesis refers to a period of prolonged slow growth, driven by weak demand. The term was first introduced by Alvin Hansen in the late thirties. He argued that the slowdown in population growth and the pace of technological advance, led to tepid investment spending and consumption preventing the attainment of full employment for many years in the U.S. Larry Summers popularized the term in the late 2013, arguing that the U.S. slow recovery from the global financial crises may reflect exceptionally low return to capital and weak demand. Economies in almost all European countries have stagnated similarly. In this paper, we provide evidence for secular stagnation from a selection of EU countries. The evidence suggests several alternative channels that can lead an economy to perform persistently below its potential.