

Presentation for
New Zealand Productivity Commission
Launch of Inquiry on Economic Resilience

Thursday 24 November, 9.00 to 10.30am.

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Introduction

The purpose of the report is threefold:

1. to describe how New Zealand has attempted to improve economic resilience over its economic history,
2. to outline how a sectoral and/or industry perspective might provide insights about the growth process, policy choices or path dependence, and
3. to outline key learnings from the past that can be applied in future policy.

1. Preliminary thoughts
2. Economic resilience to earthquakes and other natural disasters.
3. The Great Depression and the Second World War
4. Business Cycles
5. The 1966 Wool Price Collapse
6. Oil Price Shocks
7. Financial shocks
8. Economic resilience to pandemics.
9. Conclusions

1. Preliminary Thoughts

Macroeconomic resilience has two components: instantaneous resilience, which is the ability to limit the magnitude of immediate production losses for a given amount of asset losses, and dynamic resilience, which is the ability to reconstruct and recover. (*World Bank*)

Economic resilience becomes inclusive of three primary attributes: the ability to recover quickly from a shock, the ability to withstand a shock, and the ability to avoid the shock all together. (*Economic Development Association*)

Economic resilience is the ability of a local economy to retain function, employment and prosperity in the face of the perturbation caused by the shock of the loss of a particular type of local industry or employer. (*Simple English Wikipedia*)

2. Economic Resilience to Earthquakes and Other Natural Disasters.

four large substantial earthquakes with nationwide impacts

- the 1855 Wairarapa Earthquake (magnitude 8.2);
- 1931 Napier Earthquakes (7.4, 7.3);
- 2010-1 Canterbury Earthquakes (7.0, 6.1, 5.9, 6.0);
- 2016 Culverden/Kaikoura Earthquake (7.8).

2. Economic Resilience to Earthquakes and Other Natural Disasters.

resilience measures :

- encouraging and regulating for more resilient structures;
- redundancy in the connectivity systems;
- insurance;
- research;
- public education.

Policy responses can overreact.

3. The Great Depression and the Second World War

- The Great Depression;
- The Second World War;
- The Postwar Dollar Crisis.

3. The Great Depression and the Second World War

Learnings:

- diversification of export destinations reduces the impact of a shock from an individual country.
- diversification of export products reduces the impact of a shock to an individual product.
- home supply displacing foreign supply – import substitution – is an alternative to external diversification (as well as a means of job creation).
- stock management can be important.

There are cautions and caveats.

4. Business Cycles

New Zealand's business cycles are responses to external price shocks. Typically they are damped.

Learnings

New Zealand has moved from responding rapidly to external macroeconomic shocks – ‘minibudgets’, ‘fancy footwork’ and ‘fine tuning’ – to a more cautious approach of ‘steady does it’ and ‘touching the tiller’. This partly reflects a change of attitude but it also has a recognition that implementation lags reduce the effectiveness of countercyclical interventions. More commonly more is left to the economy adjusting through less intervened markets at the microeconomic level and automatic countercyclical responses at the macroeconomic level.

5. The 1966 Wool Price Collapse

The wool price collapse was dramatic and arguably the biggest single shock that the New Zealand economy experienced since the arrival of Europeans. The collapse was structural.

The responses to the collapse were not handled well.

6. Oil Price Shocks (To be addressed.)

7. Financial Shocks (To be addressed.)

8. Economic Resilience to Pandemics (To be addressed.)

9. Conclusions

This is work in progress.

- The economy is subject to ongoing unexpected and external shocks.
- Generally, the standard market responses deal well with small ones.
- Institutional design can matter. Quality design is not easy. There is a danger of overreacting.
- There is a need to maintain a capacity to think through the implications of new substantial shocks; that requires a research program which we have not always had.