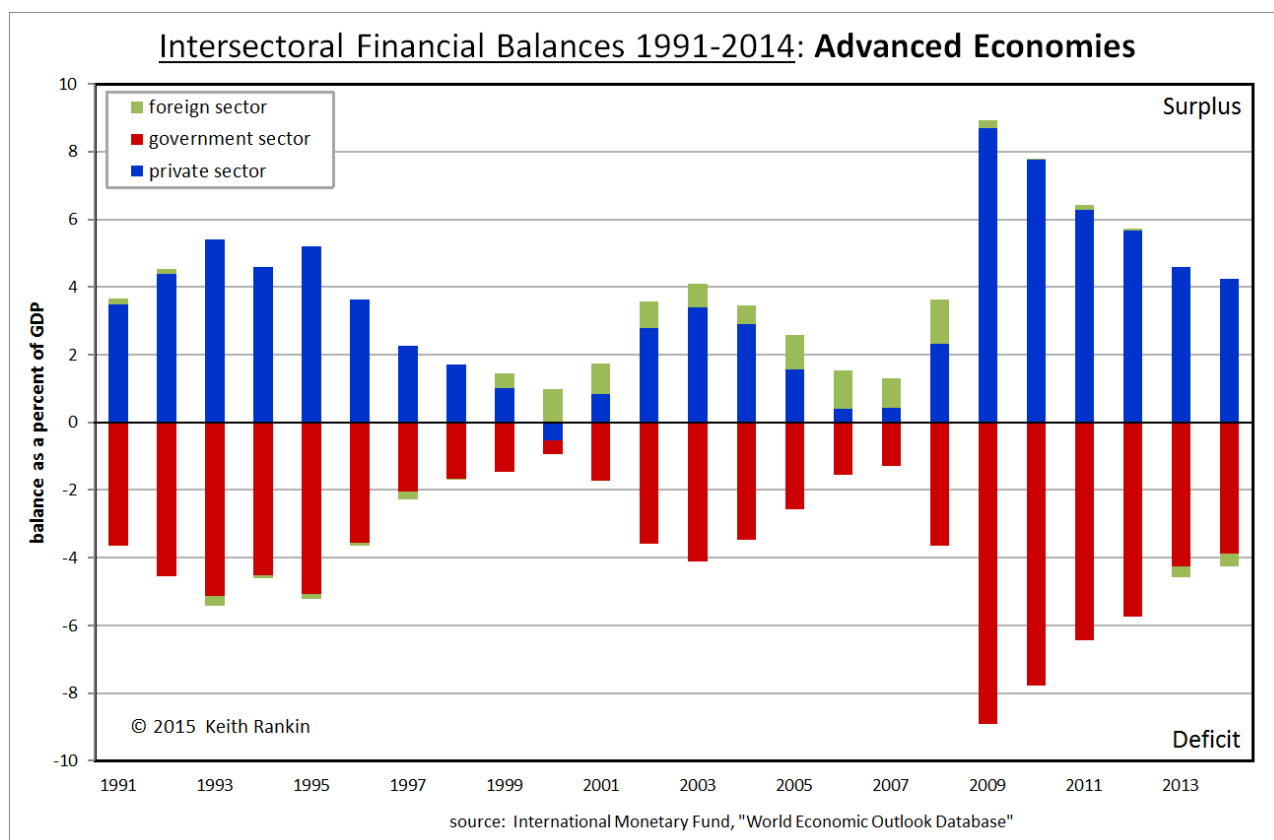


Chart for this Week:

Financial Balances of Advanced Countries 1991-2014

Keith Rankin, 5 August 2015



[Advanced Country Balances: private surpluses, public deficits](#)

This chart shows the combined 'budget surpluses' of the private sectors (strictly, the combined household and corporate sectors) of all the world's 'advanced economies'. These include New Zealand but not China. The chart shows that for every year since 1991, except 2000, most countries' private sectors ran budget surpluses; often large surpluses. These private sector surpluses were accommodated by combined government deficits. Given that the advanced economies represent well over half of the global economy, the foreign sector is relatively insignificant, though we do see finance flowing into the advanced economies from the emerging economies in the decade after the 1998 Asian financial crisis.

The interpretation is that, when financial difficulties have emerged in the advanced economies, as in 2001 and 2008, private households and businesses respond over the next few years by repaying debt, taking on less new debt, and increasing their saving. These decisions towards more conservative private practice can only be realised, in the aggregate, if the governments of the world incur accommodating deficits. The economic slowdowns in the advanced economies in these years (eg 1991-92; 2001-02; 2008-10) reflect some degree of resistance by governments to incurring the required Budget deficit accommodations. Large private surpluses are not supposed to happen; rather the low balances for the year 1998 represent about what most economists believe is typical for the world as a whole, in most years. The chart's timing suggests that government Budget deficits represent a solution to, rather than a cause of, private sector austerity.
