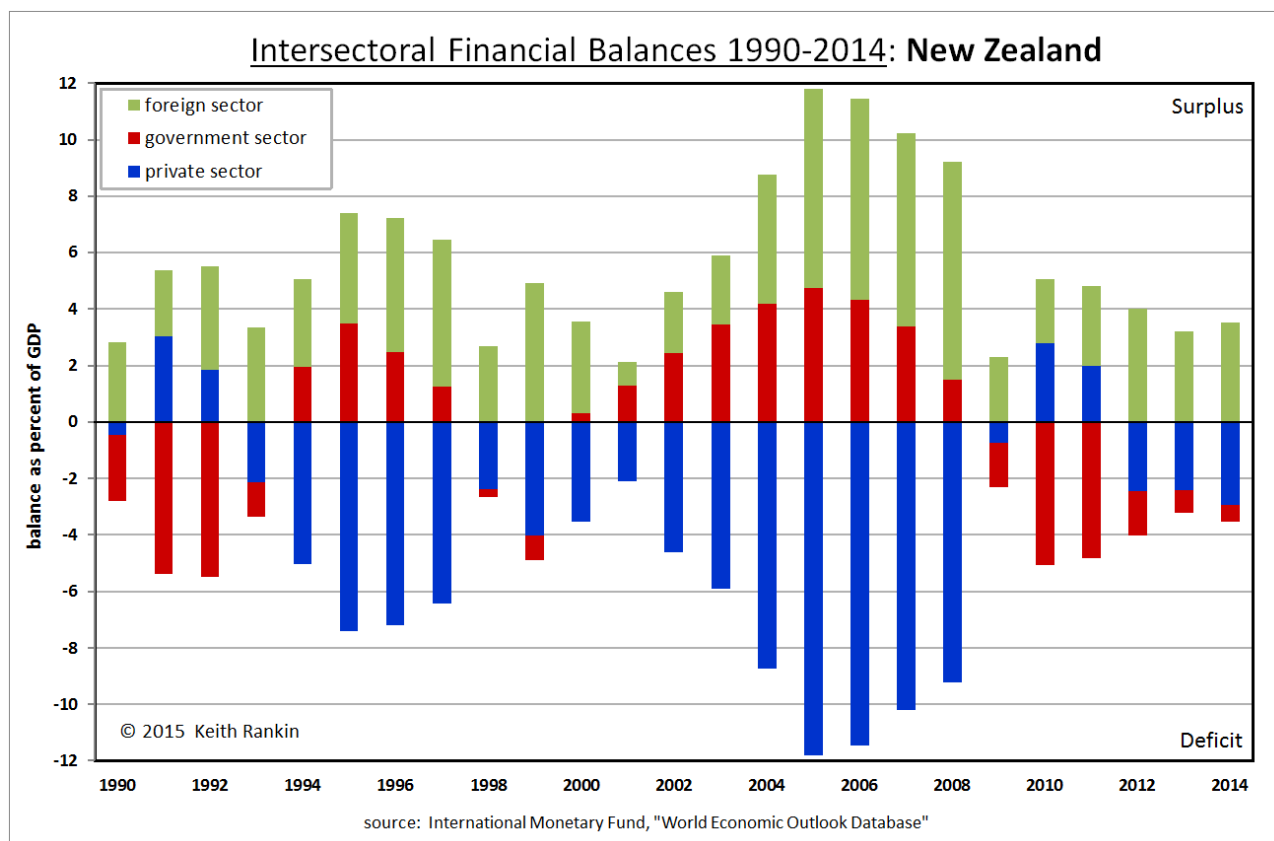


Chart for this Week: Financial Balances of New Zealand 1991-2014

Keith Rankin, 19 August 2015



[New Zealand's different](#)

Last week my [financial chart for Germany](#) showed how Germany (especially its private sector) since the advent of the Euro has run its economy by consistently (since 2002) producing more than it consumes, selling more than it buys, and accumulating monetary credits with the rest of the world (shown in green) that it will probably never spend. For Germany to be able to do this, then some other countries must be doing the opposite; the non-German world is running the deficits that match Germany's domestic surpluses.

Financial balances are a zero-sum game. Two weeks ago I showed how [advanced economies'](#) private sectors have been, like Germany, running large surpluses, especially after the global financial crisis. In this case it is the combined governments of the advanced economies that are accommodating the private surpluses by running public-sector deficits (shown in red). Government deficits have become the solution to the problem of private surpluses; that is, the solution to the problem of uninvested savings.

Where does New Zealand fit into the process? While it is an advanced economy, it is very different to the general pattern for advanced economies. In New Zealand's case, since 1993 (except 2010-11) it has been the private sector – not the government – that has helped to accommodate the private surpluses of countries in Europe and Asia. New Zealand's financial signature this century is opposite that of Germany.

New Zealanders face a conundrum. If they do accommodate other countries' surpluses by selling existing assets to those countries, then their economies stand to become insolvent. (While these private deficits mainly represent the foreign purchase of existing assets, some of the inflow is genuine investment in new assets.) New Zealand asset ownership is transferred to the Germanies and Chinas of the world economy, creating ever larger long-term outflows of interest, profits and rents. If countries like New Zealand (and there are no longer very many of these) do not accommodate other countries' private surpluses, then the world economy itself grinds itself into depression. Germany's financial profile is of the type that in the

1920s and 1930s was called 'beggar-thy-neighbour', with New Zealand being like one of the beggared neighbours.

It's a strange kind of imbalance. Germany sees itself as benefitting, making lots of money. New Zealand also benefits, getting to enjoy lots of imported goods on foreign credit; imports that haven't actually been paid for and probably never will. (When these situations have occurred in the past, depressions, inflations, and wars have eventually intervened; indeed, the Americans whose trade surpluses paid for most of World War 1 and World War 2, for the most part were not repaid. And the Chinese who indirectly financed the wars in Iraq and Afghanistan will never agree to run the huge trade deficits that would constitute repayment.)

What is it in New Zealand that creates our kind of 'spendthrift' financial signature? It is not fiscal policy. Government in New Zealand is very debt-averse, and has been ever since the 1994 Fiscal Responsibility Act.

It is monetary policy, not a spendthrift culture, which drives New Zealand's financial profile. By offering the rest of the world interest rates that look high to people in other countries (ostensibly as an anti-inflation policy), and by accepting all foreign money no questions asked, New Zealand has become the exemplar of an accommodating economy with an excellent credit rating. So far, very few foreigners have lost money through buying New Zealand assets on secondary markets. Some have gained very large financial returns through their \$NZ denominated asset purchases, so they come back for more.

The huge financial surpluses of the advanced economies are accommodated overall by their increasingly resistant governments. Within that, the private sectors of some – especially households in English- and Spanish-speaking countries – accommodate the massive private (mainly corporate) surpluses, for example through large mortgages. In New Zealand's case we might add dairy-farm debt to this accommodating mix.

The global process of financial imbalance appears to be accelerating. We live in interesting times.
