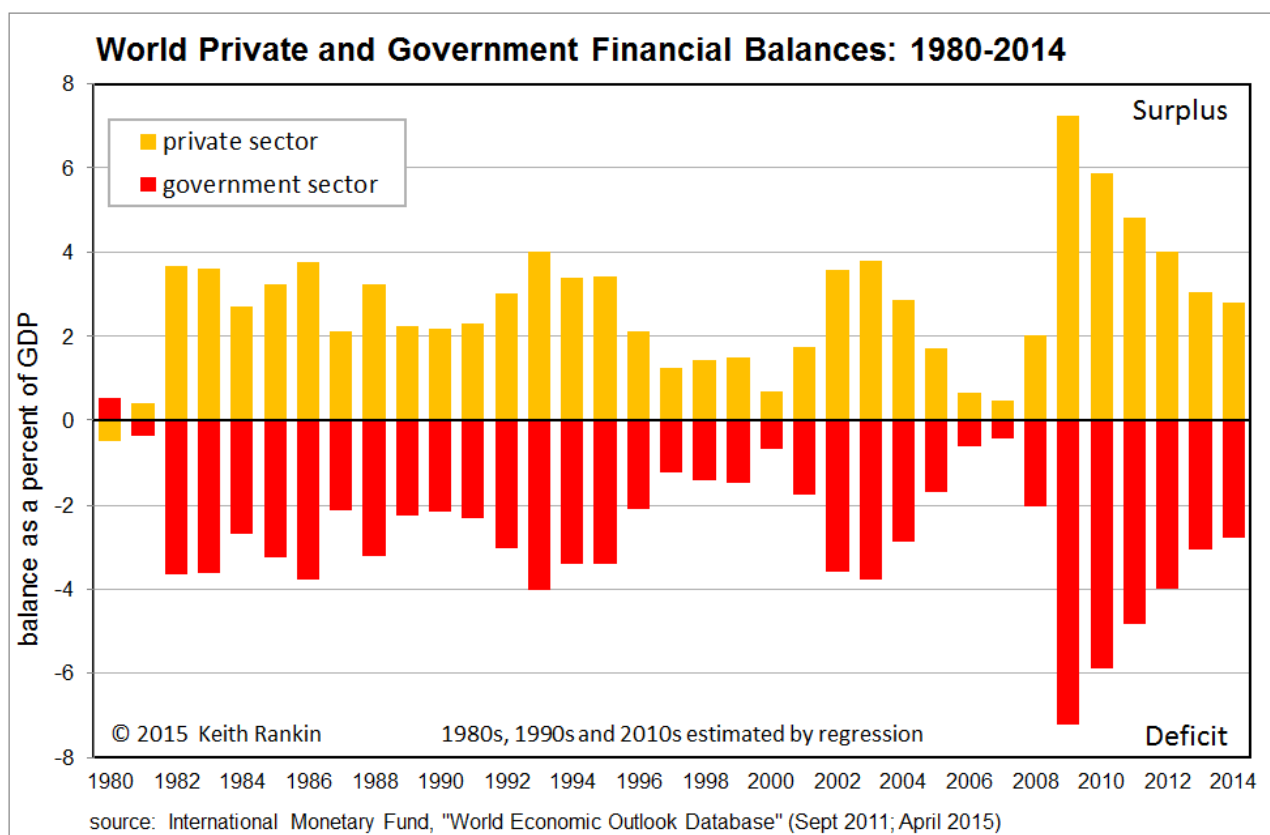


Chart for this Week:

Global Hoards and Government Deficits

Keith Rankin, 23 September 2015



[Governments defuse world's money mountains](#)

This week's chart looks at private-sector surpluses and public-sector deficits in the global economy.

IMF data for combined world government balances (deficits for most countries most of the time) was available in 2011, and only for the 2000s' decade. For the 1980s and 1990s, and the 2010s so far, I have used a regression technique.

(First I estimated 'general government' balances from 1994 based on the general relationship between combined advanced economies and emerging Asian economies with the global economy. Second, I used these estimates to establish 'multiple regression' relationships with USA, UK, Japan and France to extend my estimates for global government balances back to 1980.)

The 'private sector' is defined here as every party in the global economy other than governments. Because every deficit transaction must be matched by a surplus transaction elsewhere, the private sector balances are calculated as a simple mirror image of the government balances. I have used the 'colours of the Spanish flag' (see my [Money, Flow and Debt](#); Evening Report 25 July 2015), with gold representing accumulations of private sector unspent money and red representing annual accumulations of government liabilities.

The important question is to establish which sector—private or government—behaves in a more autonomous fashion, and which sector largely accommodates to the choices made in the other. Economic neoclassical orthodoxy—the orthodox interpretation of market behaviour—has for a long time assumed that government financial behaviour is autonomous, and that government deficits 'crowd out' the private sector, denying the private sector opportunities to 'grow the economy' through the investment of its liabilities (ie investment of debt and equity capital).

The chart shows the unmistakable signature of money hoarding in the private sector in years following financial crises, which were also years of high global unemployment: 1982, 1988, 1992, 2001/02, 2008/09. The only alternative explanation is that governments suddenly got very greedy in these years; but, if this was the case, these would be years of very low unemployment, as governments competed with private firms for scarce labour.

The most plausible general interpretation is that, for the whole period, financial behaviour in the private sector is largely autonomous – determined by many individual firms and households making decisions informed by their interpretations of the circumstances that they face. It is not plausible to see in this chart a process of private businesses perpetually thwarted by financially rampant governments. Rather, the private sector's natural mode of operation is to save significantly more than it invests, resulting in the accumulation of 'hoards of gold'.

Government deficits are a necessary offset to these golden hoards. Government debt is the saviour of liberal capitalism, not its nemesis. Indeed the main cause of unemployment can be understood as the resistance by governments to borrow more from the private sector than it does.

If the world economy (output of goods and services sold) grows at three percent a year, then global government debt-to-GDP levels remain stable, and government deficits cannot be argued (even by the most rabid opponents of government deficit spending) to be a threat to the world economy. Further, this deficit spending by governments generates much of what world economic growth there is, creating both infrastructure and aggregate demand. Without it, the capitalist world economy would collapse.

Both neoliberals – who despise government spending – and others (such as Keynesians) agree that the perfect chart would be zero balances; the most boring chart imaginable. The challenge is to get us – private households and businesses – to spend (including genuine investment spending) our incomes and pay our taxes, allowing the world economy to tick over in a sustainable manner without governments having to borrow very much.

In the chart above, the red is a consequence of the gold. The long-run solution is for us in the private sector to stop accumulating 'gold', and allow the government deficits (the red) to fall in consequence.
