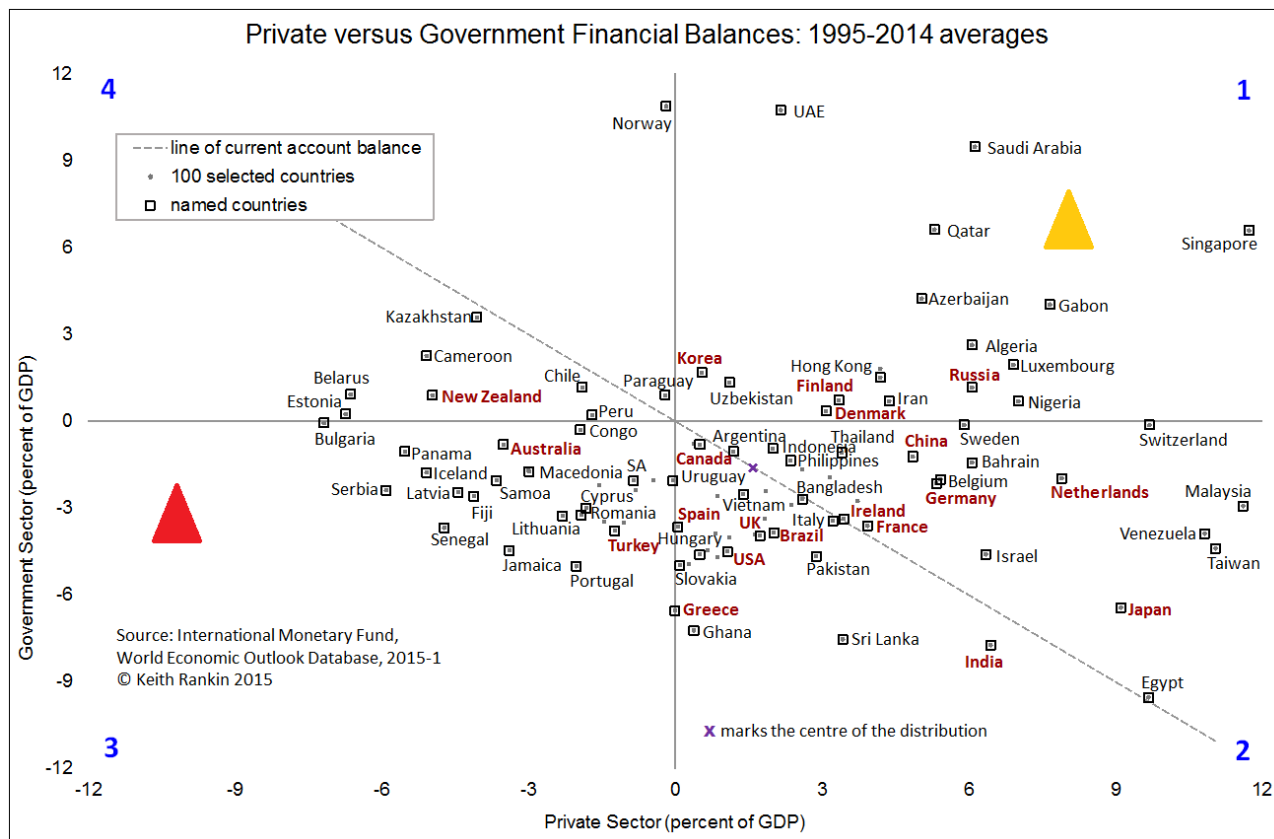


Chart for this Week:

Spread of Financial Balances by Country, 1995-2014

Keith Rankin, 30 September 2015



Financial Personality by Country

This week's chart looks at private-sector and public-sector balances for selected countries, averaged over the last 20 years.

The chart is divided into four quadrants, numbered with blue numerals; and into two halves separated by the line of current account balance. Countries to the right of the current account balance line are 'surplus countries' that have earned more income than they have spent. Countries to the left of the current account balance line are 'deficit countries' that have spent more than they have earned. There must be about as many deficit countries as surplus countries, because the world economy is a closed financial system. (No trade with or investment in Mars, despite the news yesterday about Mars having flowing water.)

Quadrant 1 can be said to be the 'gold mountain' quadrant. Countries in this quadrant have run surplus balances on average for the last 20 years in both their private and government sectors. Not surprisingly we see oil-exporting countries predominant in this quadrant. Yesterday I wrote about Germany as a successful mercantilist country ([Germany, the Eurozone and Mercantilism](#)). In recent years, Germany too has inhabited this gold mountain quadrant, now that its government is in surplus. Many strive for Quadrant 1, but due to systemic constraints few achieve it. It has helped to have oil.

The most populated quadrant is Quadrant 2. These countries have had decades of private surpluses and government deficits, reflecting world norms as shown last week in [Global Hoards and Government Deficits](#). The chart's 'centre of gravity' lies in this quadrant, with an average government deficit of just under 2% of GDP, and an average private sector surplus of just under 2%. Most of the familiar 'saver economies' are in this quadrant, to the right of the current account line. They are mostly aiming for the gold mountain; government budget surpluses to match their private surpluses.

Quadrant 3 is regarded as the problem debtor (red mountain) quadrant; deficits all around (private, government, current account). The closed system systemic logic requires that there be as many countries in Quadrant 3 as in Quadrant 1. So when some countries move into Quadrant 1, others are forced into Quadrant 3. Quadrant 3 is not so bad though; governments and citizens get to spend more than they earn, whereas in Quadrant 1 both get to spend less than they earn.

Surprisingly, Quadrant 4 is the least populated. Yet it is New Zealand's natural homeland. New Zealand is a financially exceptional country. With 'fiscal responsibility' entrenched in its statutes and with relatively high interest rates, New Zealand's private sector consistently gets to spend more than it earns; it enjoys much more than its share of the world's credit. This spending has helped to ensure that the government sector has, in most of the last twenty years, been in receipt of sufficient taxation revenue to register fiscal surpluses.

If everything in the financial world worked perfectly, every country every year would have both private and government balances of zero. The fact that balances are so diverse over a period of decades tells us that the global monetary system does not work as it's intended to do. In particular, the exchange rate mechanism does not lead to the automatic rebalancing of trade, as it should. New Zealand is lucky, in that in periods of global financial panic, the New Zealand dollar tends to depreciate, leading to a position closer to the line of current account balance that eases the impact of such crises.

I have highlighted a number of countries of interest to us in New Zealand. The BRIC countries (Brazil, Russia, India, and China) plus Turkey have diverse financial personalities. All have moved left since the global financial crisis, saving the global capitalist system as European countries in particular moved right. All (India least obviously) have significant economic problems now. Saving the world economy was not easy, but someone had to do it.

The highlighted Eurozone countries show significant government deficits, except for Finland. Greece with its combination of persistently high government and current account deficits was always going to be the Eurozone country in the most trouble.

Japan's financial personality is the diametric opposite of New Zealand's. Indeed Japanese savers have been significant owners of New Zealand debt. So have creditors from many other Asian countries, and from northern European countries.

Small countries that we once thought were much like us are no longer. Denmark and Finland show similar Government surpluses, but substantially different private sector balances. Finland's economy has just emerged from a three-year recession, and Denmark has interest rates close to minus one percent. They remain blighted by too little consumer/investment spending.

Korea is the economic dynamo of recent times, in the gold mountain zone, but not ridiculously so; unlike Singapore which is in the extremes.

The Anglophone countries, with the exception of Ireland which is in the Eurozone, are now all firmly entrenched as current account deficit countries. Canada has become more so this decade.

If the world economy is to rebalance, all countries will need to get closer to the current account line, and preferably many on both sides of the line will cross it. It seems unlikely however that many countries will cross over the current account line. Most have well-entrenched financial personalities – as shown. Global rebalancing will more likely come, eventually, through crisis and conflict, as indeed it did in the years from 1914 to the 1945.
