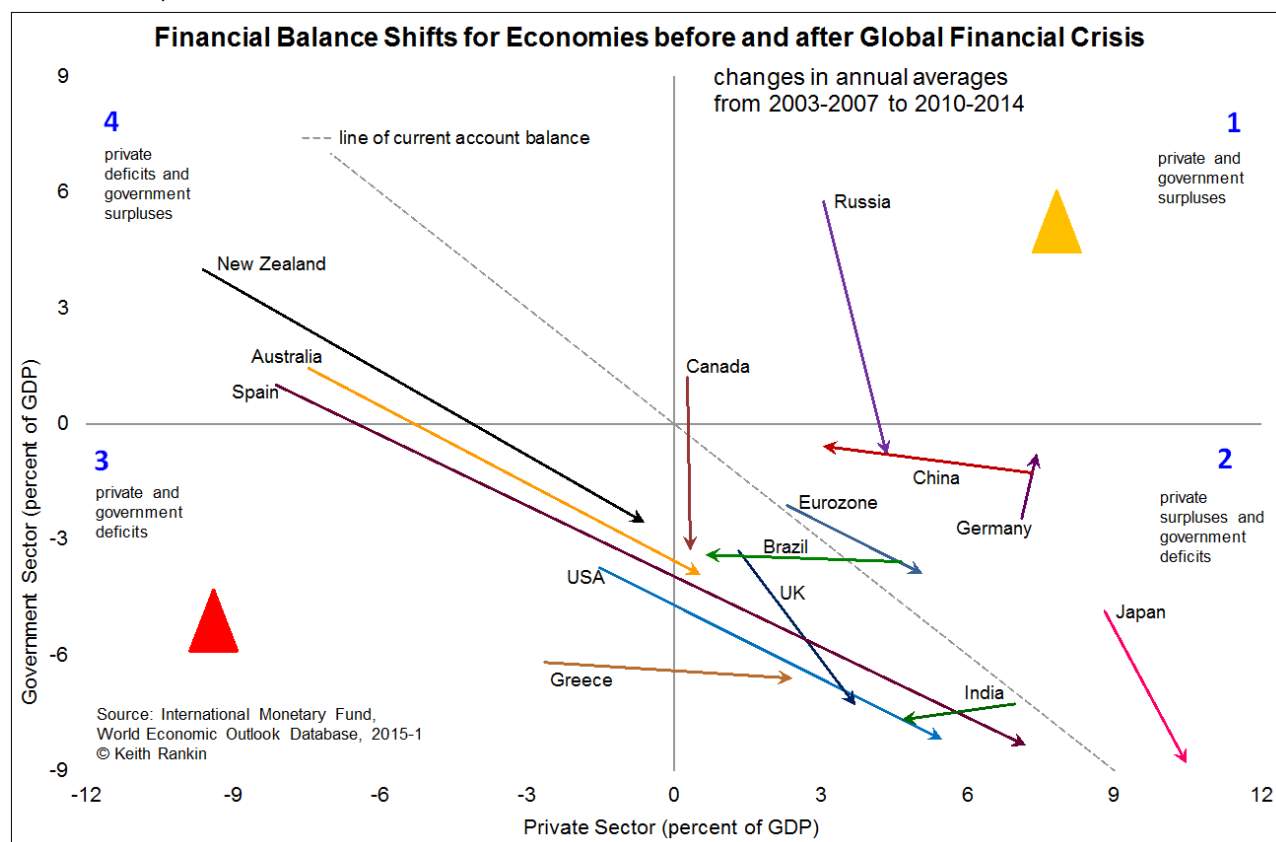


Chart for this Week: Shifts of Country Financial Balances before and after the Global Financial Crisis

Keith Rankin, 7 October 2015



Anglo, Eurozone, Japan and BRIC financial shifts

This week's chart looks at shifting private-sector and public-sector balances, before and after the 2008-09 global financial crisis.

This chart is structured the same as [last week's chart](#), which showed medium-long-term average financial balances (surpluses and deficits) in countries' private and public sectors. This week's chart takes a selection of countries in the anglosphere (such as New Zealand), the Eurozone, Japan and the four BRIC (Brazil, Russia, India, China) economies.

The first point for us to note is that New Zealand—exceptional as ever—is the only one of these countries that in 2010-14 did not inhabit Quadrant 2, the zone of private sector surpluses and government sector deficits.

The bigger issue for the world economy is the convergence of national economies in this quadrant, with the general pattern of movement being decreased government balances (bigger deficits) and increased private surpluses.

The systemic constraint is the line of current account balance. When countries on the right side of this line move further from the line (and countries on the left side move closer to that line or across that line), that movement must be offset by movements towards or across the line by other countries to the right of the line (or by movements away from the line by other countries to its left). Shifts to the right or up must be countered by other-country shifts left or down.

Some shifts are intended; others are induced or resisted. Where these intended shifts are in the government sector, it represents government fiscal policy. Since 2010 government fiscal policies have generally been tight (or even austere), meaning that governments are **wanting** to move towards Quadrant 1 or Quadrant 4. Only two countries have shown any success in this regards: China and Germany.

The Eurozone governments clearly want to take the Eurozone towards Quadrant 1. That pathway is entrenched in European Union fiscal policies, just as, since 1994, it has been entrenched in New Zealand that governments should run financial surpluses. Only Germany (and Uzbekistan, not shown) have really succeeded in defying the trend to falling government balances. Germany is able to do this because, for it, the Eurozone structure represents an exchange rate mechanism that pushes Germany towards the desired 'golden mountain' that epitomises Quadrant 1 (see my [Germany, the Eurozone and Mercantilism](#), 29 September).

Where has the systemic accommodation taken place, which has allowed Germany and other European countries to raise their current account balances? Clearly the most important accommodators have been the BRIC economies plus Canada. Brazil, India and China have accommodated through lower private sector balances – more private sector borrowing – whereas Russia and Canada have largely accommodated through either less government revenue or more government borrowing. We note that such accommodation, as seen in Canada, is unintended in the current global policy environment. Russia and Brazil are now in deep recession. Canada's economic growth has taken a deeper dive than has Australia's; with unemployment at 7% and rising, economic conditions there are portentous for the coming election. Economic conditions in China are also distinctly wobbly.

The countries shown that are least in crisis (excluding Germany and New Zealand) are the ones with the largest government deficits: USA, UK, India, and Japan. Even Spain is seeing high government deficits helping it to recover from its crisis. (Ireland, likewise. Ireland goes off the chart, beyond Japan and Spain.)

In general, intended shifts down (government sector) and left (private sector) have expansionary global effects; intended shifts up (government sector) and to the right (private sector) have contractionary implications for the world economy. While each country's economy has its own story to tell, many shifts are unintended. Germany is succeeding in building a monetary mountain in its private sector, pushing some other countries towards the red debt mountain (Quadrant 3), while also – through an undervalued exchange rate and rising inequality – denying its residents the consumption benefits of its growing export receipts.

In the last two years, New Zealand has been moving back towards Quadrant 4, reflecting its financial personality; living on the edge and for the most part getting away with it. I would prefer New Zealand to run a more equal balance between its government and private sectors; bigger government and smaller private deficits. There is much scope for New Zealand central and local governments to borrow and spend more. New Zealand can sit comfortably in Quadrant 3, for example with both private and government balances averaging about -2% of GDP.
