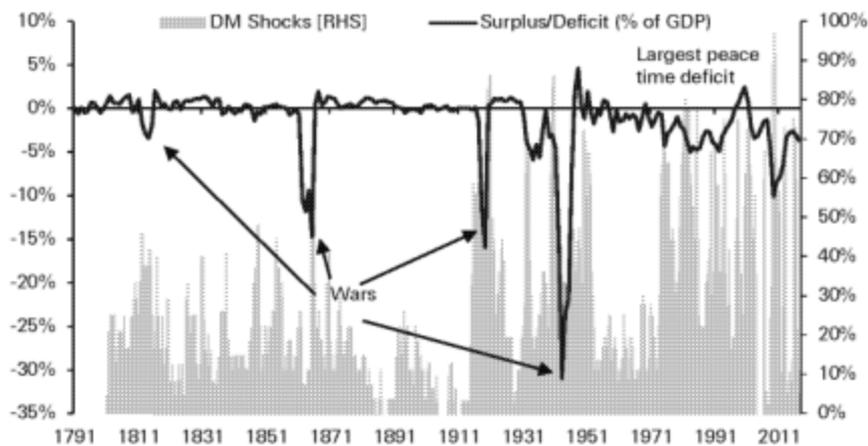




The high government deficits that have been run since the 2008/09 GFC have simply been an extension of the post Bretton Woods multi-decade trend. Figure 25 shows the US annual budget deficit back to 1791 and illustrates that the deficits seen since the early 1970s have consistently been higher than all of history apart from the brief spikes due to wars and the one seen during the early 1930s and the Depression years. Obviously deficits have fallen since the immediate post GFC years, but looking at recent history, one doubts whether under the current global financial system we can return to balanced budgets again in the foreseeable future. It's therefore unclear as to how debt/GDP ratios will decline over any observable horizon period without a careful combination of low yields, higher inflation and higher growth – a difficult combination to create.

Figure 25: US Annual Budget Surplus/Deficit (1791 to present, LHS) and DM Financial Shocks (RHS)



Source: Deutsche Bank, Global Financial Data

Prior to the Bretton Woods system collapsing in 1971 and with it our last currency link to gold, a balanced budget was a routine peace time phenomena in developed economies with little variability around this. Even when the deficit spiked due to wars, there tended to be a quick return to surplus after each conflict ended. However in modern times, apart from the 4 years of small surpluses between 1998 and 2001 (internet bubble related), the US has run an annual deficit every year since 1969. In fact they have been in deficit for 53 out of the last 60 years (including 2017).

Elsewhere, the UK chancellor has recently pushed back the plan to balance the budget to 2025 with some recent reports suggesting that this could be pushed back further to 2027 later this year. If these targets are hit (and it's a big if), it would mean 24 or 26 successive annual deficits. Elsewhere Spain has been in deficit for 53 of the last 61 years. Japan has run an annual budget deficit since 1966, France since 1993, and Italy has seen perpetual annual deficits since we have reliable data back to 1950 (except 1997). Figure 26 plots the annual budget deficits for these countries and shows just how unusual budget surpluses have been in the last 45 plus years. Surpluses have often only been seen briefly in artificial booms like the one already discussed around the turn of the millennium, the late 1980s consumer boom/bubble in the UK and the property bubble in Spain just before the GFC.