Ten years after the GFC, many major economies are still struggling with either debt, deficits or current accounts (international trade and income balances), or all of the above. Before looking at these factors, it may be useful to see the pecking order of the big economies in 2018, as the chart below reveals.

Since the GFC, China has overtaken the US to become the world’s largest economy in GDP (PPP terms), India has overtaken Japan, and Indonesia has overtaken Brazil, the UK and France. Furthermore, the GDP of Eastern nations has now overtaken the GDP of the Western nations in an irreversible tectonic shift.

The emerging economic power of the East—headed by China, India and Indonesia—has been made easier by the debt levels, government deficits and slow economic growth of major Western nations. For example, Asia is growing at almost 6% pa, while the US and EU have struggled to reach even a third of that GDP growth over more than a decade.
Below are the debt levels and government budget balances (mainly deficit spending) for the major nations of the world. Interestingly, while debt levels as a share of GDP tend to be higher in developed economies, the two fastest growing economies, China and India, have high negative budget balances. Nevertheless, their GDP growth is nearly double their budget deficits, unlike the US and the UK, which have been living beyond their means, with deficit spending as a share of GDP often exceeding GDP growth for that year.
Australia sits in the middle of the debt ladder, but nearer the virtuous end of the budget balance ladder, with prospects of being able to balance our budget for the first time in around 13 years, as we enter the 2020s.

Regarding international economic affairs, the current account (trade and income balance) of leading economies is also revealing. Below we show the current account balance for 2018, and follow that with a dissection of the trade and income components, which make up the overall current account.
Given that the world’s current account balance is a zero-sum outcome, the first table is split somewhat equally into the positive and negative balance nations. Ditto trade and income balances, but with interesting nuances.

While President Trump is railing against a trade deficit nearing a trillion dollars, the US’s income balance is positive due to its big corporate incomes from offshore investments. The positive income balance is nowhere near enough to match the negative trade balance. However, the US faces a double or triple whammy as a result of recent decisions by its president. Seeking the return of foreign investment back into the US via dramatically reduced corporate taxes means lowering the income balance from offshore corporate activity on its current account.

Placing tariffs on steel and aluminium, and other products is likely to make a lot of manufacturers more expensive in the US and less competitive abroad, worsening the trade deficit. Any retaliation by other countries can only aggravate the situation further.

Australia sits close to the virtuous middle of the ladder on its current account, based on a modest trade surplus and a manageable income deficit in 2017.

But our economic growth is sputtering at just over 2% growth in 2017, around 1% below the long-term average since the end of the Industrial Age in the mid-1960s of 3.2% pa; and more than 1% below the 3.5% pa growth over the past century.
Interestingly, our poor economic performance of the past decade in particular, as seen below, is less to do with our debt levels, deficit spending (chronic though they have been) or current account. And we are spared the worst of any trade war started by President Trump due to our economic integration into Asia, which accounts for two-thirds of our trade these days.

Our malaise is internalised with the absence of economic, tax and labour reforms, and a dearth of statesmanlike leadership for over a decade from either of the main political parties.

And like many of the world’s democratic governments, it has been the emotionalist or populist ideology that has been in the ascendency over rationalist government for too long. This problem will continue into the next decade before rationality, courage and leadership reasserts itself. But yet again, it will come after the forgotten or ignored lessons of history have been repeated.