Preface

Writing a book on the US current account deficit was a challenge that neither of us could resist. With the United States absorbing four-fifths of the world's cross-border savings, this imbalance is perhaps the biggest issue in the international economy. In addition, with the funds flowing from some of the poorest countries to the richest, the global imbalances take on an extra dimension, as summed up by the view of another author that the flow is 'fundamentally perverse'. Subject matter of such significance and portent could hardly be ignored.

Both of us have been involved with the question of current account deficits for some time. One of us – a market economist immersed in the daily ebb and flow of financial markets reacting to and affected by the US deficit – welcomed the opportunity that the book offered, to sit back and take a longer-term perspective. The other, an academic, who was involved in the debates on current account deficits in the Australian context some fifteen years ago, was glad of the opportunity to see how the literature had changed over the intervening years and to examine matters from the very different vantage point of the US economy.

As it turned out, one major difference from the past comes from the sheer variety of views that US academics and others have put forward to account for the phenomenon of the US external deficit. One inspiration for the volume came from the observation of ex-Federal Reserve Vice-Chairman Roger Ferguson that there had been few attempts to evaluate the full range of explanations advanced for the US deficit. The first task we had was to develop an organizing framework to deal with the different hypotheses, with the aim of producing the most comprehensive account to date of the various views and how they contribute to the story of the evolution of the US current account deficit.

Because the United States occupies such a central position in the world order, an analysis of the US deficit necessarily overlaps with global geopolitics and the United States' relationships with China, Japan, the European Union, oil exporters and others. While we have not deliberately sought to emphasize such international geopolitical factors, they cannot be ignored and we have certainly not tried to interpret everything solely in economic terms. There is consequently coverage of some matters that might not be expected in such a volume, especially China's global ambitions and governance problems that, to us, condition its economic relations with the United States.

How the authors came to work together may seem something of a puzzle but has a simple answer since they are son-in-law and father-in-law, and there is a precedent for such a connection in the form of two earlier Elgar volumes with another son-in-law. Mother and daughter were on hand to bring things to a close by setting an unbreakable deadline for the book's completion of end-November 2006. Without this, it might still be in the process of draft and re-draft! To them we owe considerable gratitude, especially since one of them bore almost entirely the brunt of typing the manuscript and keeping the references under control. In fact, this is now the eighth book that the Lewis family connection has with Edward Elgar Publishing, an association that we are glad to acknowledge and continue.

We thank Frank Warnock of Darden Business School, University of Virginia, for supplying us with the data series for Figure 4.10. Christian Upper and Nikola Tarashev of the Bank for International Settlements very kindly supplied us with the data for Figure 7.4.

Finally, although this project was undertaken with the blessing of BNP Paribas, the views expressed here are entirely our own and we alone are responsible for the content.