
Preface

The term “global imbalances” denotes large and persisting current account surpluses and deficits between countries and country groups. The question of whether economies may have—or even should have—large surpluses and deficits in the current account ranks among the most controversial issues in international economics. Imbalances between the United States (as the largest deficit country) on the one hand and China, Germany, Japan, and the OPEC countries (as the largest surplus countries) on the other hand came to a head since the late 1990s. Many observers hold those imbalances to be one of the major causes of the global financial and economic crisis of 2008/2009. Although global imbalances had been somewhat reduced both during and after this financial crisis, most forecasts expect a renewed increase in the course of the coming years. These considerations lead to the question of how the limits of imbalances should be specified and, in particular, which imbalances should be regarded as excessive or unsustainable.

Against this background, Angélique Herzberg’s dissertation deals with sustainability of external imbalances. The focus of this work lies, on the one hand, in a critical discussion of different methods available for assessing external sustainability and, on the other hand, in a discussion of the empirical studies on sustainability which are usually based on time series or panel tests. However, the large number of both theoretical concepts and empirical methods makes it difficult to arrive at a uniform conclusion regarding external sustainability of a country or group of countries.

Angélique Herzberg also discusses the indicator-based scoreboard of the procedure for preventing and correcting macroeconomic imbalances in the European Union. However, the scoreboard’s indicators are intended only to identify that an imbalance exists; to determine whether it is sustainable or not, requires further analysis. Nevertheless, the relevant empirical studies find some (although not unanimous) evidence that those indicators could have sent early warning signals of an upcoming sovereign debt and financial crisis.

Her thesis provides a comprehensive and most competent overview of the literature on external imbalances. Both the theoretical approaches and methods as well as the results of a large number of empirical studies on sustainability are presented and assessed. A comparable systematic survey has been lacking so far, although the theoretical and empirical literature on sustainability is large and heterogeneous. For all those who deal with the issue of global imbalances, both in academia and in practice, the present work gives valuable ideas and considerations.

Sustainability of External Imbalances

A Critical Appraisal

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