New Economics of Survival

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The mankind currently faces manifold threats to its very existence – environmental, social, geopolitical, and economic. "Economics of prosperity" has therefore to be replaced by "economics of survival," where both ends and means drastically differ from their existing versions. Long-range risk management becomes its main priority. Two important components of the new economics should be "Risk-Constrained Optimization"® (RCO) and "compensated free trade." (RCO has been developed, off and on, since the 1960s, while CFT originated in 2004.)

RCO is intended for decision-making under radical uncertainty, with environment full of concealed crucial dangers. It is devised to attain, as much as possible, the full purpose of planning – not only to achieve its intended goals, but also to avoid undesirable unintended consequences.

RCO drops the very concept of "the best" solution, replacing it by "the most acceptable." It becomes not decision-making tool of "selecting something," but rather an analytical tool. A harmful artificial paradigm of "maximization" is replaced by a natural evolutionary paradigm of "catastrophe avoidance." Thus RCO focuses on ferreting out the hidden dangers and eliminating or mitigating them by constructing reasonably safe contingency plans. RCO uses enhanced stochastic multiscenario models and other filtering techniques, which neutralize potentially perilous miscalculations and thus – for the first time in more than 60 years – legitimize the high-level analytical use of a "computer+optimization model" combination. Also, as any protective equipment, RCO reduces our need in knowledge about the future.

"Compensated free trade" is a simple concept of mitigating the currently arising disbalances of the international economic order. For each of its trading partners, the USA sets an annual limit of allowed trade deficit. (The Congress would set the total deficit limit for the country, while the President would allocate it to individual countries or blocs.) If the partner wants to exceed that limit, it should pay – government to government – a stipulated percent of the excess deficit. This approach has dozens of advantages, and it seems to be the only way to exploit our only remaining weapon – the size of our market.

If implemented, it would be the only system that, while controlling trade deficits, prevents trade wars. It would be a superb tool of both short- and long-term risk management. It also could be a tool of both diplomatic persuasion and geopolitical containment, a la Kennan, of potential rivals and adversaries.

A revolution in economics and adjacent disciplines might help us. Or not. As everything else in this world, this is highly uncertain.