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Balancing Global Trade: "Compensated Free Trade"

Vladimir A. Masch*

This paper addresses two problems. The first is the need to restore to a balanced condition the presently dysfunctional global economic system. The second is to end or sharply reduce the self-imposed and unfair enormous trade deficits and employment losses of the USA. The current form of globalization has little in common with the idealized theoretical image of free trade. For instance, it makes the industrialized countries, which abide by the standards of international labor organizations, to compete with countries that do not. This situation is especially acute in the USA, which outsourced millions of jobs. In its present form, globalization is dangerously incompatible with the politico-economic system of the USA and other liberal democracies. Political events of 2016 confirmed that. The study has been performed from 2004 to the present. For self-preservation of a deficit country, this policy uses the methodology of government-imposed macroeconomic constraints on the overall trade balance of a country, this balance being split into trade balances with individual trade partners of that country. The study resulted in the proposal of CFT. CFT carries out an old idea that trade surplus countries should be somehow taxed to provide help to the deficit countries. But it is a unique, fundamentally novel policy of organizing international trade, a compromise between free trade and protectionism. It is the only trading system that prevents trade wars and other retributions. Also, it can be imposed unilaterally, thus avoiding utopian dreams about benevolent international cooperation, as well as the need to re-negotiate any trade agreements. That distinguishes CFT from every other system of "managed trade." In this author's opinion, if CFT is implemented by the USA, it would become a versatile geopolitical and economic tool of great power. It would improve the financial and employment conditions of the country. It also would restore to order the global economic system.

Field of Research: International trade.

Keywords: International trade, China, TPP, Trade balance, Trade wars, Keynes, GATT, "Compensated Free Trade," Externality, Globalization, Factor price equalization.

1. Introduction

Globalization cannot continue in its current unbalanced form. "If something cannot go forever, it stops." Needs and capabilities of surplus and deficit countries should be mutually accommodated. The overall trade balance of a country is "an externality" for the national economy: every import or export operation changes that balance. If the balance is negative, negligence to control it may lead to unsustainable situation. A fee or a tax (so-called "Pigovian tax") or a constraint should be imposed on it. A lasting trade deficit will lead to shrinkage of the wealth and degradation of the financial position of the country. To control the deficit, the country may pursue a protectionist policy. But every purely protectionist policy creates a burden for the domestic economy. Inflation and financial difficulties for consumers, as well as

*Dr. Vladimir A. Masch, Risk Evaluation and Management, Inc. Warren, NJ 07059, USA.
Email: skipandscan@optonline.net.

trade wars and retributions, will follow. Ultimately, the WTO will forbid such tools as the tariffs. *The deficit country must be saved from both free trade and protectionism.*

"Compensated Free Trade" (CFT) transfers this burden onto the surplus trading partners of the deficit country. It proposes a unique, fundamentally novel policy of organizing the international trade. Every year, the deficit country imposes limiting constraints on individual deficits, derived from trade with each of its surplus trading partners. The sum of these constraints should equal at most the desired overall annual trade deficit of the country, plus the total sum of country's expected surpluses with its "deficit trading partners." Smaller "punishing limits" may be imposed on misbehaving partners or geopolitical adversaries, while the limits for friendly and well-behaving partners may be raised.

Any country can unilaterally impose CFT on its trading partners. This unilateralism distinguishes CFT from all other proposals of "managed trade" policies. No more utopian wishful thinking about benevolent international cooperation; no more endless haggling over agreements with minimal results.

The limits are given to the surplus countries as their *trade surplus limits.* A partner may exceed its surplus limit if its government pays for the excess surplus to the government of the deficit country. If the partner does not pay, excessive imports from it would be blocked.

In this author's opinion, CFT would create a powerful geopolitical and economic tool for the deficit country. It also would: enhance the financial and social balance and industrial might of the deficit country; restore the presently dysfunctional global market, bridling globalization by balancing the needs and requirements of countries with trade surpluses and deficits; and prevent trade wars and retributions. *The two main problems* addressed in this paper are: first, the need to restore to a balanced condition the presently dysfunctional global economic system; second, the necessity to end or sharply reduce the self-imposed and unfair enormous trade deficits and employment losses of the USA.

Reasoning behind the study is that solving these problems can be achieved by placing macro constraints on national externalities – trade balances of deficit countries, and then transferring these constraints to surplus partners. To attain this, however, these constraints have to be split between all surplus partners of the countries in question. *The significance of the results* is that the CFT policy becomes a unique, fundamentally novel powerful geopolitical and economic tool that combines free trade and protectionism and is very versatile. Moreover, the study has revealed and eliminated some serious violations of economic theory and has "shifted the paradigm" of international economics. CFT creates a new type of "balanced capitalism."

The CFT policy *differs* from all other versions of "managed trade" in being imposed on the global market by a deficit country *unilaterally*, without utopian wishful thinking about benevolent international cooperation. It is pragmatic, realistic, and non-ideological. *The primary objective* of the study is proposing a policy that would create a balanced global market and eliminate or sharply reduce the trade deficit of the USA.

The article is organized as follows. Section 2 focuses on Literature Review and also contains the history of CFT. Because of versatility of CFT, in order not to miss any of its diverse benefits, Section 3 collects and lists the most important of them. It also analyzes the CFT drawbacks. To appreciate the controlling techniques of CFT, we have first to consider the issue of constraining the externality, the overall trade balance of a country (Section 4); the techniques of CFT and some of its consequences are accordingly deferred to Section 5. Section 6 reminds us of some other most important flaws of the current globalization. Section 7 is Conclusions. Then follow References.

2. Literature Review

The idea that trade surplus countries should be somehow taxed to provide help to the deficit countries is not new. There exist many proposals of “managed trade,” all requiring international cooperation and thus being no more than utopian wishful thinking. For instance, J. M. Keynes made such proposal in 1941(Keynes 1941). (The proposal was rejected because of resistance of the USA, then a surplus country.) The similarity between the objective of Keynes and that of CFT has been emphasized by Coy (Coy 2016, p. 8).

The problem is - how to make the surplus countries give up their gains? Which weapon can be effective, given the rules of the WTO and existing “eternal” trade agreements between countries? How to avoid long and futile haggling in re-negotiating such agreements? And after that, how to prevent every trick and crime of experienced crooked traders?

In 2004 this author hit upon an idea of a fundamentally novel, “balanced capitalism” compromise between free trade and protectionism; I called it “Compensated Free Trade” (CFT). The absolute novelty of CFT was confirmed in 2009 (private communications) by an expert in international trade Prof. Morici, who stated “I do not recall such a proposal.” Since CFT is so original, no literature on “managed trade” other than (Keynes 1941) is listed here.

CFT was developed in response to an article by Prof. Samuelson, allowing the possibility of dangerous trade results for the USA under conditions of dynamic technological change at its trading partners. (Samuelson 2004). Profs. Gomory and Baumol expressed similar and other concerns for a world where technological predomination of countries quickly alters (Gomory and Baumol 2000). I have sent my proposal to Samuelson. CFT substantially invalidated his HOS theory (Heckschter-Ohlin-Samuelson) and, in terms of Thomas Kuhn (Kuhn 1962), “shifted the paradigm” of international economics. I was later informed that he seemingly did appreciate importance of CFT and paid to it unusually high attention. Samuelson had no counter-arguments; neither had anyone else since 2004 to present.

Professor Robert Skidelsky, a most prominent expert on Keynes, makes the following remark in private communication: “I see value in unilateral CFT by the USA as forcing a reform of IMF towards Keynes's Clearing Union. I think it's got to be presented in this form to be persuasive and not as an alternative.”

Since 2004, CFT was described in several publications (Masch 2004b, 2007, 2008, 2009b, 2010, 2015, and 3 blogs in 2010 and 2016 in Huffington Post) and presented at an international conference. In 2005, jointly with M. Perlman, The University Professor of Economics (Emeritus) of the University of Pittsburgh, we submitted a statement on CFT to the USA Senate Finance Committee (Masch & Perlman 2005). The paradigm of self-preservation has been formulated in (Masch 2015). But I did not press for CFT being widely known in the USA – to the general population, not to the economists, who would try to keep it “Top Secret.”

Now, because of new importance of trade in the USA politics, I think it is time to make CFT the subject of wide discussion.

3. Potential CFT Benefits and Negatives

In this author's opinion, CFT creates a versatile geopolitical and economic tool of enormous power, which would kill a quite surprising number of plump birds with just one stone. (Contrary to selfish wishes of economists, geopolitics always played extremely important role in international trade, and vice versa.) If imposed by the USA, CFT would provide the following benefits:

- Be imposed unilaterally, thus avoiding need to rely on non-existent international cooperation.
- Prevent trade wars and recriminations.
- Stimulate returning to the USA of enterprises and jobs, thus restore its industrial might and social balance.
- Provide annual corrections of "eternal" trade agreement with the surplus trading partners, changing their surplus limits in accordance with the then existing economic and geopolitical conditions and with the behavior of these partners, and thus avoiding the need to re-negotiate these agreements.
- Confront, in one wholesale stroke for each partner, government subsidies, price and currency manipulations, and other dirty tricks of international trade.
- Sharply raise the geopolitical status of the USA and its allies, increasing their capability to contain and confront the adversaries of the democratic world order, and maybe even making the USA and its allies the unipolar hegemon.
- Handle potential economic disadvantages of Trans-Pacific Partnership (TPP), thus removing or greatly diminishing obstacles to new consideration, approval and implementation of this agreement, crucially important from strategic and geopolitical point of view.
- Help in "persuading" other countries to participate in activities, necessary to save the ecology of our planet.
- Be fully consistent with both spirit and letter of GATT and thus be protected from being banned by the WTO.
- Restore the presently dysfunctional global market, bridling globalization by balancing the needs and requirements of countries with trade surpluses and deficits.
- Improve each annual trade balance of the USA, potentially by hundreds of billions.
- Eliminate the need in import tariffs, proposed by the Trump administration, and thus reduce the threat of inflation.
- Prevent by-passing the surplus limits by redirecting the exports to the USA through other countries.
- Provide annual "risk management" corrections of "eternal" trade agreement with the trading partners, changing their limits in accordance with the then existing economic conditions, political risks, and the behavior of these partners, and thus avoiding the need to re-negotiate those agreements.
- Confront, in one wholesale stroke for each partner, government subsidies, price and currency manipulations, and other dirty tricks of international economics.
- Create a new type of capitalism, "balanced capitalism."

- Safeguard the country from evils of both free trade and protectionism, being a compromise between them and achieving the goals of the latter without applying its both costly and forbidden tools.
- Be fully pragmatic, realistic, and non-ideological.
- "Shift the paradigm" of the theory of international economics.
- Eradicate some serious misuses of the general theory of economics, such as absence of control over "externality" of foreign trade operations to the USA economy.

Whenever these short definitions need additional explanation, it is provided in Sections 4 - 6. As far as this author knows, CFT currently is unique in achieving the above benefits. But nothing in the world is perfect: CFT has disadvantages, too. So what about the negatives? In principle, eight major negatives of the proposed system are possible:

(a) Decreasing the USA growth.
(b) Raising our inflation and interest rates and reducing the purchasing power of the American consumer.
(c) Wrongful redistributing monetary and real incomes between different groups of the American population.
(d) Reducing profitability of American enterprises and multinationals that use the low-wage countries as a source of profit.
(e) Decreasing the rates of growth of our trading partners.
(f) Same, of global economy.
(g) Triggering an economic and financial meltdown by making our trading partners angry enough to sell their dollar assets.
(h) Begetting another bureaucratic mess.

Unfortunately, the same first seven phenomena will also unavoidably happen under any probable future scenario, such as dollar depreciation, irrespective of whether we have done anything or not to bring our deficits down to a sustainable level, but without the advantages of CFT.

Indeed, it is better to deal with such phenomena when we at least have a powerful weapon for fighting them, rather than otherwise. Having the proposed tool, we will be able to offer our trade partners "the carrot option" of cooperation -- a gradual reduction of their deficit limits, with minimal possible pain for all sides, leading to a sustainable "soft landing." Truthfully and convincingly, we would tell them that they would otherwise lose the American market – either by destroying the USA economy or by begetting full-scale USA protectionism. (As Dr. Henry Kissinger used to say, "This argument has an additional advantage of being true.") Hardball dissenters and proponents of (g) would instead face "the stick option" of an immediate sharp reduction of their surplus limits.

Under present conditions, the surplus partners have the upper hand, and we have to rely on their mercy. Under the proposed system, the US will be in the driver's seat. As to (a), it will be countered by better growth because of reduced competition from imports and return home of some of our exported factories. As to (b), both any Micawberish family and any Micawberish country must learn to live within their means. Consumption is forgotten the next day, but debts are forever. When one buys a cheap Chinese goody, society pays the rest of its real price, getting in debt and losing jobs. Under present conditions, every such purchase is a start of a vicious cycle that - sooner or later, in one form or another - will come back to him, or his neighbor, or his descendants.

Besides, the surplus limits can be set in a way that would protect the consumers, as much as possible. As to (c), we have to be very cautious. The middle class will win in their monetary income. The income of elite will probably decrease, but that is only fair, considering the income shifts from the middle class to the elite in our recent past. If prices rise, everybody will lose in his purchasing power. It is not clear what will happen to both monetary and real income of the lower-income group. But we should really make all comparisons here with the outcomes of the alternative policies under the new industrial revolution, rather than with the today's status quo. In that sense, I think that everybody – maybe, except the elite -- will win. This issue needs additional analysis, but any possible conclusions in that direction clearly will not overweigh the advantages of the proposed policy.

Most importantly, (d) is unavoidable if we want to reduce the deficit: a substantial part of it is caused by imports of multinationals and other corporations that have exported American factories abroad. The earnings of top corporate executives and investor returns would suffer. Too bad. We also desperately need to restore the risk management safeguards, recklessly abandoned by many greedy corporations that scatter their supply chains around the globe, as if only balmy days are ahead. In the 21st century, full of dangers and unprecedented uncertainty! Also, Big Business does not have the right to exploit the advantages of being American companies, while endangering the security needs of the USA. The CFT will help here: greed will be channeled into a less dangerous form.

As to (e), to increase their rate of growth, our partners should finally abandon their "beggar thy neighbor" export policies and develop their domestic markets. The CFT proposal would give a strong push in that direction, which was necessary long ago. CFT indeed transfers the financial burden onto the surplus trading partners of the deficit country. It also transfers to our partners many difficult decisions, otherwise to be made by the USA. The surplus partners would have to go along -- access to the American market provides for them too many advantages, including the crucially needed employment and the resulting political stability.

As to (f), the rate of growth of the global economy –- I can only repeat here the immortal words of Rhett Butler: "Frankly, my dear, I do not give a damn." Critics can say to the USA -– you "go it alone", are unilateral, and dictate too much. Well, does anyone object to the USA "going it alone" in paying for globalization? He who pays for globalization sets its rules.

Also, some of these "negative" consequences may even be desirable: the system will reduce the unsustainable rates of growth of some parts of the world economy, which threaten the environment and put excessive pressure on the supply and prices of oil and other commodities. This will help to conserve valuable global resources (and lower their prices, too). Our CFT policy will also stop or slow China's buying up the producers of these resources, "colonizing Africa" and other continents. As to (h), we have many bureaucratic messes. But not a single one of them costs the country six hundred billion dollars a year; none of them leads the country to assured disaster. Is the beautiful simplicity of free trade worth the price?

4. Absence of Control over Externality

We should not forget that the overall trade balance of a country is an externality for its national economy, and negligence to control it is an extremely serious violation of the economic theory; it undermines its very foundation. *“No free lunch” is the First Commandment of economics.* With no exceptions, free use of a limited resource leads to disaster. A fee or a tax or a constraint should be imposed on it. A lasting trade deficit will lead to shrinkage of the wealth and degradation of the financial position of the country.

It is clear that the trade deficit countries need financial help. Indeed, what would happen when such a country runs out of its wealth? According to the Herbert Stein’s Law, “If something cannot go forever, it stops.” How do you stop a country? In 1991, the Soviet Union disintegrated. Though its politico-economic system created by Stalin was inherently unstable, that process was triggered by trade deficits. Before lowering of the oil prices in the 1980s, the foreign trade inflows and outflows of the USSR were approximately equal. The drop of oil prices halved the inflows, so that the country started borrowing.

In 2006, Yegor Gaydar, Deputy Prime Minister of Russia in the beginning of the 1990s, published in Moscow a book *Death of an Empire* (in Russian) (Gaydar 2006). He implied that the disintegrated of the Soviet Union was accelerated primarily because it tried to borrow from its enemies, and they did not oblige. *Caveat America!* The first commandment of a nation state, as of any organism or organization, must be self-preservation. GATT reminds as of that – its Article XII prescribes a country “to safeguard its external financial position and its balance of payments.”

But even before a disintegration of a nation-state, consequences of chronic trade deficit impose enormous stress on the country – both its society and its geopolitical standing. The benefits of globalization are promised in a far-away, nebulous future. Its negative effects, such as income redistribution, are felt immediately. By 2015, according to Patrick Buchanan, “Since Bill Clinton took office, the U.S. trade deficits have totaled 11.2 trillion.” (Buchanan 2015). And “Political Backlash Grows in Washington to Chinese Takeovers,” including acquisitions of military and technical importance, reports New York Times (Bradsher and Mozurfeb 2016). A Chinese billionaire declared recently: “We have bought their buildings, we have bought their companies and now we are going to buy their art.” (Qin 2015).

Why did not the economists treat the trade balance as an externality? Two economic theories underlie international trade: “the law of comparative advantage” of Ricardo and its modern expansion by HOS (Heckschter-Ohlin-Samuelson) model. In both theories, product prices and currency rates are instantly adjusted in such way that trade becomes no more than barter and balances of all countries always equal zero. Money plays just an auxiliary role of bookkeeping.

As described by Profs. Cohen and DeLong, until the 1980s “American government did not accept ideological handcuffs. … [T]he US government even deliberately devalued the dollar in the interests of national prosperity. … America used all the tools…” of self-protection (Cohen and DeLong 2016, p. 15). Therefore deficits, if any, were small and did not deserve attention. “But beginning in the 1980s, America has been getting its economic policy wrong.” (Ibid., p. 23) Mesmerized by dreamed-up fantastic advantages of post-industrial society, America cut its share of manufacturing in the economy from 21 percent to at most 14 percent – by one third! Its appetite for manufactured goods did not, however, slacken.

Governments and businesses of almost every other country did not care a hoot about abstract utopian theories and were happy to fill the stupid USA goods gap. And, contrary to a world of fantasy, positive money balance was one of the main goals of trade; prices and currency rates were "sticky" and did not adjust as predicted by the theory. Especially successful in implementing export-oriented policies were East Asia nations, but such countries as Germany were not far behind. The total 2016 trade-in-goods deficit of the USA has been $677 billions; the largest contributors have been China, Japan, Germany, and Mexico, with bilateral surpluses of $319, $62, $60, and $59 billions, respectively. China has 47 percent of the total surplus! (Amadeo 2017) (In services, the USA usually has overall annual surpluses of $200+ billions, that decreases the overall USA trade deficit.)

Some pragmatic economists have lately been opposed to unbridled globalization and alarmed by its financial outcomes. For example, in the cited above book Cohen and DeLong have paid a lot of attention to the USA trade deficits. But, as far as I know, nobody ever treated the overall deficits as an externality of a nation state. Such blindness may be explained, but explanation is not an excuse. It is difficult to forgive. The political and economic American elite did not even follow the reminding mandate of GATT, prescribing a country "to safeguard its external financial position and its balance of payments."

5. Detail of CFT

5.1 What Is CFT?

The next day after the Britain's Brexit vote, President Obama said that "… vote speaks to the ongoing changes and challenges raised by globalization." Brexit is ending globalization in its existing unbalanced form, which has created many difficulties, including colossal trade deficits, for the USA. So let us seize the opportune moment. To eliminate or mitigate these difficulties, this author has proposed "Compensated Free Trade" in the beginning of the study and has continued working on it until present.

"Compensated Free Trade" (CFT) is a unique, fundamentally novel proposed policy of organizing international trade. Every year, a country that has a deficit trade balance imposes limiting constraints on individual deficits, derived from trade with each surplus trading partner. The sum of these constraints should equal at most the desired overall annual trade deficit of the country, plus the sum of expected surpluses of the deficit country with its "deficit trading partners." Smaller "punishing limits" may be imposed on misbehaving partners, while the limits for friendly and well-behaving partners may be raised.

For blocks of trading partners, surplus limits should be established only for its individual surplus members. Also, if the deficit country needs some products, they may not be counted in the limits. (If those revenues exceed the overall surplus, the partner will be switched from a "surplus partner" into a "deficit partner" category.) If the country imposing CFT is the USA, the Congress may set the amount of the desired overall annual trade deficit, while the President would set the deficit limits for individual trading partners. For example, suppose the USA has four trading partners. Last year two of them had surpluses of $250B each, the third one –

surplus of $60B (with revenues for automobile parts needed by the USA equal to $20B), and the fourth one – deficit of $30B. The Congress sets the desired overall trade deficit for the next year at $430B.

The President may impose the surplus limits on the first three partners only - of $215B, $215B, and $30B, respectively – totaling $460B; we also expect to have a surplus with the fourth partner of $30B, covering (460 – 430) billions difference. The automobile parts revenues of the third partner are not counted in its surplus limit. A partner may exceed its trade surplus limit if its government pays the government of the deficit country for the excess deficit. Both the number and zeal of customs inspectors dedicated to accepting goods imported from a partner would depend directly on that partner's relevant behavior. For instance, if a partner does not pony up, all excessive imports from it could have to pass through a single customs inspector. France did that in the last century to control the import of Japanese cars. Any country can unilaterally impose CFT on its surplus trading partners. That distinguishes CFT from all other proposals of "managed trade" policies. No more utopian wishful thinking about productive international cooperation; no more endless haggling with minimal results.

5.2 Following GATT

It is most important that CFT strictly follows the self-preservation prescription of GATT and thus cannot be forbidden by the WTO. Article XII of GATT states that any country "in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported." GATT says nothing about tariffs. In contrast, the WTO forbids tariffs but says nothing contradictory to Article XII. GATT did not state how to safeguard the balance of payments other than by restricting imports. CFT goes straight to that goal by a better short cut – by splitting overall balance into trading partners' fractions and limiting these partial balances.

5.3 Containing the Dragon

Let us start with geopolitical advantages of CFT. According to the Prof. Mearsheimer of the "offensive realism" school of geopolitics, China can be considered as "threat number one" and the possibility of a future Sino-American war should not be excluded (Mearsheimer 2014, p. 386). He says that "Slowing down Chinese economic growth is certainly a more attractive option than nuclear war …" but he does not consider slowing feasible. In his "Crouching Tiger" (2014) book, Prof. Navarro does not dispute Mearsheimer and states that the only way to deal with China is the "peace through strength" process (Navarro 2014, pp. 249-254). Do we follow it?

Each year, China increases its military budget by double-digits percentages, and it is now somewhere between $200B and $300B. At the same time, we continue cutting our military budget. Our present Navy is headed down to 250 ships, which is less than a half of what it has been under President Reagan. The size of USAF is below demands of combatant commanders, is the smallest in its history, and will continue shrinking further under budgetary sequestration. Meanwhile, as shown in Section 4 above, each year we cheerfully continue to pump over hundreds of billions of dollars from our defense to China's armed forces.

CFT can be used for containment, a la Kennan, of geopolitical adversaries of the democratic world order, such as China. And in the current situation, its territorial containment is impossible, while financial containment should be very effective. China's government fears unemployment, which may threaten social stability (Hernandez 2016). Therefore the payments for excessive surplus would likely not to be forwarded to manufacturers of export goods, but be paid from currency reserves of the country. (They have shrunk to a five-year low of about $3 trillion, but still are large enough.) That should reduce the China's military budget. Considering both the uncertainty about the China's intentions and the current conditions in the South China Sea, this is not bad.

5.4 Trans-Pacific Partnership vs. a Vacuum

Trans-Pacific Partnership (TPP) has enormous geopolitical importance. It provides a cordon of 12 Pacific nation states against China's continental and global ambitions of expanding its sphere of dominance. It confirms "the pivot" of the USA to the Pacific. The geopolitical impact of TPP is incomparably more important than its economic one: if America is out, China will be in – the Nature abhors vacuum. However, like any economic agreement, TPP provided both advantages and disadvantages for America. Currently the USA left TPP. But if CFT is implemented, it would handle such issues as loss of American jobs. Dealing with potential economic disadvantages of TPP would remove or greatly diminish obstacles to new consideration, approval and implementation of this agreement, crucially important from strategic and geopolitical point of view.

5.5 Restoring the USA Internal Balance

In the fist years of its implementation, constraining surplus limits should probably be gradually decreased from the current levels. To avoid emotional overreaction of trading partners, we should not go too far. Nevertheless, with overall USA annual trade deficits of about $500B, even the initial USA benefits should be quite substantial. Offshoring and globalization had destroyed the delicate balance between the three "countervailing powers" of labor, capital, and government (Prof. Galbraith 1952), created in the USA with enormous difficulties by the 1950s. Unbridled globalization undermines societies and is incompatible with democracy. Rodrik says that out of three – nation, democracy, and globalization – we can have any two, but not all three at the same time (Rodrik 2011, p. 200). He calls this problem "a trilemma."

CFT would stimulate corporations to relocate their enterprises to the USA. At the same time, any surplus trading partner would protect his existing domestic business from invasion of foreign enterprises, which another country could try for purposes of re-shipping or relocating its exports, since such attempts would compete for a part of the partner's deficit limits. In this manner, CFT would make that trading partner the ally of the USA in preventing a limit's evasion by other countries – and also help to restore American jobs. (For both surplus and deficit trading partners, other preventive techniques could also be used.)

In the cited above book, Rodrik describes a quite unexpected way in which CFT, in its constraining impact on globalization, would help to restore the social balance in the USA. America is a very open country – its average import tariffs are below 5 percent. In such country, it is extremely difficult to obtain further increase of market efficiency from additional trade liberalization: we need "… about $50 of [income] redistribution for every $1 of aggregate gain. It is as if we give $51 to Adam, only to leave Daniel $50 poorer." (Ibid, p. 57) It seems that Adam belongs to the 1 percent, while Daniels constitute those tens of millions of Americans that are on the wrong side of trade effects. They suffer, by Rodrik, from 8 to 28 percent of wage decrease (Ibid., p. 56). Of course, if they find a new job. By Moore, "There are now more than 100 million Americans over the age of 16 that are not working." (Moore 2016) According to a new survey by the Council of Economic Advisers of the White House, the labor participation rate in America is now 62.6 percent - a low level, not seen since the 1970s. For American "prime-age men" (25 to 54) it is 88 percent - the third-lowest among the world's developed nations. (In 1954, it was 98 percent.) Greece, Slovenia and Turkey have higher rates (Mui 2016).

From another source, "In 2015 the work rate (the ratio of employment to population) for American males age 25 to 54 was 84.4%. That's slightly lower than it had been in 1940, 86.4%, at the tail end of the Great Depression. Benchmarked against 1965, when American men were at genuine full employment, the "male jobs deficit" in 2015 would be nearly 10 million, even after taking into account an older population and more adults in college." (Eberstadt 2016)

In 2009, Prof. Blinder guesstimated the number of "potentially offshorable" American jobs to be between 30 and 40 million (Bhagwati and Blinder 2009, p. 37). He considers that "… sixty million is more than enough to create something akin to a new industrial revolution." (Ibid., p. 35). That is looked at in the framework of opinion of experts, who assume that in two to three decades China and India will be "Adding 300 million … of skilled workers," which "is roughly equal to the present workforce of the United States and Western Europe combined!" (Ibid., p. 34).

To transfer the blame, business elites and liberal economists maintain that loss of manufacturing jobs is mostly caused not by globalization, but by automation. Baker (Baker 2017a, 2017b) dispels this myth. He shows that "… in recent years the pace of automation has been extremely slow. Productivity growth, which is a measure of the rate at which workers are being displaced by technology, has averaged less than 1.0 percent annually in the United States over the last decade" – in contrast to 3.0 percent in the 20th century. (Baker 2017b) "It is very convenient for elites to blame the growth of income inequality on impersonal forces like the development of technology, but it is not true." (Ibid.)

5.6 What Trade Wars?

CFT seems to be the only system that would prevent trade wars and economic recriminations: since it imposes constraints not on the USA import from a country per se, but rather on our trade deficit (that is, on the difference between the partner's export to the USA and the American export to that country), any attempt to decrease the latter would also automatically decrease the former. That will put to rest all ill-boding parallels with the Smoot-Hawley tariffs and their allegedly ominous consequences.

For instance, suppose that our import from a country is $10B, while our export to that country equals $7B. The deficit limit for the country is set at $3B. If the country adopts some measure that decreases our export to $6B, its allowed export to the USA would equal not $10B, but rather 6 + 3 = $9B. On the other hand, if our export to the country increases, so will its export limit to the USA.

6. Some Other Flaws of Globalization

6.1 At Last, a Free Lunch!

We can outline now some most import flaws of the existing globalization and its underlying theory. Section 4 mentions disregard of money as one of the main faults of the theory of international economics. In the second most important flaw, HOS contradicts the very essence of economics – it says that there is free lunch. A country is able to specialize without any adjustment costs; in the real world, these costs might easily bury "the advantage."

Even forgetting about the social costs of possible unemployment, HOS excludes — among many other items — the costs of re-training, relocation, and readjustment of workers of an industry that is liquidated. Since HOS deals with multi-industry models, this means that all those workers must be "homogeneous" workers, able at a day notice go full speed into any of the growth industries. Textile industry women of South Carolina, when their factories are closed, must start next morning at Boeing or Microsoft. Doing Windows or planes. Or the workers remain in SC, using next day the former textile machinery to produce these goods. As Commandment 4 of economics, Rodrik states that "Unrealistic assumptions are OK; unrealistic *critical* assumptions are not OK." (Rodrik 2015, p. 203). This author considers the free lunch assumptions most critical.

6.2 Top Secret – Your Daily Wage Is Going to Last for a Month

As Rodrik says in his book, "Confronted by the gap between what they teach and what they preach, economists will take refuge in a number of arm-waving arguments. … None is particularly convincing. … [T]he ambiguity of the case for trade are well known within the professional economic community. The problem is that economists guard them like state secrets and look on those who would share them with ordinary folks as apostates." (Rodrik 2011, p. 86)

For instance, even would the theory of international trade be correct, its projected results would be completely unacceptable to majority of Americans. These conclusions are therefore hushed up. For instance, it has been rigorously proven (in two "factor price equalization" theorems; the last one is in (Samuelson 1948)) that, even under full employment, and even if all theoretical and practical difficulties were "assumed away," wages in all free-trading countries would be equalized at a sufficiently low "weighted" level. Basically, importing goods is equivalent to letting in the workers that produced these goods.

Do not forget that wages in some countries are at least 30 times less that in the USA. (In 1999-2000 the US labor organizations demanded that US would not admit China into WTO without "addressing its systematic and egregious violations of workers' rights," in particular — until its wages satisfy standards of international labor bodies. However, President Clinton prevailed; Presidents W. Bush and Obama happily followed in his steps, patriotically exporting the US manufacturing base. As a TV program host Letterman quipped in 2006, "President Bush is on an eight-day tour of Asia. He is visiting American jobs." (Bhawati and Blinder, 2009, p.19).

Another example of “triumph of hope over experience.” One of the worst and most costly triumphs in the history of mankind.)

Under persistent unemployment, and under the conditions of the new industrial revolution, it will be much worse than under full employment: in every category of labor, excessive supply will overwhelm any possible growth of demand. And, as pointed out by Blinder above, education and skills may not help Americans because of an enormous pool of unemployed and less-paid professionals and skilled workers in the rest of the world. China alone needs 17 to 20 million new jobs a year, and — for political stability - needs them badly.

7. Conclusions

The study underlying this paper is completely original. Since there were no previous studies, this paper does neither support nor contradict them. Politically and economically, time has come for a shift of paradigm and a broad discussion of CFT; further delay is dangerous. The proposed CFT policy is fundamentally novel. The cardinal distinction of it from other “managed trade” is that CFT can be imposed by any country unilaterally, without any utopian assumptions about benevolent international cooperation and without prolonged haggling.

CFT is very significant from both practical and theoretical point of view. CFT can restore to order the currently unbalanced and dysfunctional global market. No less important, it should improve both geopolitical status and financial position of the deficit country. Theoretically, the CFT paradigm refutes the very foundation of the theory of international economics and introduces a new type of “balanced capitalism.” It also corrects the inexcusable error of traditional economics, which, in its obsession with free market, deliberately shuts its eyes to the overall trading balances of countries.

The main implication of the study is that the current mode of globalization cannot continue any longer. It has to be replaced, and CFT seems the proper replacement policy. As all new research, this study should be expanded. As everything else, this study is not perfect. In (Keynes 1921, p. v) Keynes remarks: “There is much here, therefore, which is novel, and, being novel, unsifted, inaccurate, or deficient.” No revolution is ever tidy. So let us be vigilant – and tolerant.

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