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Balanced Keynesianism and Its Application to Cutting the Trade Deficits

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ABSTRACT

In the twenty-first century, the goals of mankind are evolving from raising near-term prosperity to unlimited term sustainable survival of mankind in an acceptable state. This is bound to lead to a scientific revolution—a paradigm shift. A return to the generalized ideas of Keynes must be an integral part of that shift. I propose that the Keynes's approach to economics must be complemented by imposing (Pigovian) taxes on negative externalities. The resulting "Balanced Keynesianism" (BK) in international trade is "Compensated Free Trade" (CFT), which should be unilaterally imposed by the US government on each of its mercantilist trading partners. It easily wins in comparison with other proposed methods of cutting the trade deficit. Under CFT, a limit is imposed on export revenues of each trading partner. As we shall see, it is the only methodology that allows large-scale and fast US deficits cutting, while automatically preventing trade wars and repercussions. CFT allows having the nation-state, democracy, and globalization at the same time.

1. Introduction

In the twenty-first century, the goals of mankind are evolving from raising near-term prosperity to unlimited term sustainable survival of mankind in an acceptable state. This is bound to lead to a scientific revolution—a paradigm shift. A return to the generalized ideas of Keynes must be an integral part of that shift.

The approach of John Maynard Keynes to economics must be complemented by imposing Pigovian taxes on negative externalities. The generalized combined approach includes four principles that address uncertainty, externalities, control by a non-market entity, and riskiness. "Compensated Free Trade" (CFT) should be unilaterally imposed by the US government on each of its mercantilist trading partners. It easily wins in comparison with other existing proposed methods of the cutting trade deficit—Import Certificates and scaled tariffs.

Under CFT, a limit is imposed on export revenues of each trading partner, a surplus or a deficit one. A limit can also be changed to punish any trading partner for his bad economic or geopolitical behavior or to reduce his currency reserves.

That partner can decrease his exports to achieve the set limit. But it could also exceed its export quota if its government pa*ys* the US government (in one or several payments) a fine equal to the value of the desired excess exports.

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