For those who are familiar with Samuelson's classic textbook analysis: how the new macro differs.

NewMacroDifferentAssumptions.docx

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For macroeconomists: There is just one important added condition to the new macro, which explains much additional economic behavior that present macro does not easily explain.

A two sentence ultra brief description: Traditional macro explanation does not recognize or understand the importance of "trade balance" for a closed economy. This new version defines a simple heterogenous agent set suggested by international economic analysis, and shows how "trade imbalance" can also happen in even a closed economy—and how it has the same bad effect as imbalance as in international trade.

Medium brief description: Samuelson's textbook description of Keynes' ideas assumes a set of agents that are all similar, thus utilizing a "one agent" description (model). This new macro modifies this assumption to a simple, but more realistic one that assumes a set of heterogenous agents. Such agents differ from each other with respect to a parameter that closely resembles "current account" which is a number that is usually used only to describe "trade balance" for a nation engaged with other nations in international trade. "Current account" for a trading nation is the total value that nation has exported minus the total value imported over some period.

We can define a similar number like "current account" for each agent in a closed economy that is equal to the total value of goods/services produced by that agent (agent's income) minus the total value that agent spends for goods/services in that same economy during some period. Each agent falls in one of two categories; one category for those with positive numbers who are the "savers" or "net exporters." The remaining with negative numbers are "dissavers" or "net importers."

This new macroeconomics defines total "balance of trade" within (even a closed) economy by adding all exporters' net extra output together. In a closed economy this number must be equal to all the extra spending (beyond what they produce) by the "importers." Just as happens in international trade, during any defined period the total additional amount of cash received by exporters is equal to the amount of total cash transferred from importers.

If "imbalance" is very high, wealth gets rapidly transferred from importers to exporters, exactly similar to international trade, thus resulting in rapid development of wealth inequality between the two groups over time, and, incidentally, poor transfer of goods/services within the economy from exporters to importers if importers do not have sufficient savings to purchase what they want.

The difficulty with Samelson/Keynes' analysis is that with a single agent, imbalance cannot occur, so it does not show the weakness caused by "imbalance" that this new approach to macro demonstrates. Keynes did recognize, however, that economies can fall into recessions or depressions where "something" causes reduced GDP and high unemployment-- a problem that to fix, he suggested requires additional money be given to agents to increase aggregate demand,

and recover employment and GDP. He identified this cause as “lack of consumer confidence.” This new macroeconomics makes a much stronger and clearer claim that this lack of aggregate demand and unemployment is caused by “high trade imbalance”, which is essentially the same problem among countries with highly imbalanced trade.

The essay also explains how trade can be put into better balance, with a list of historically evolved corrective economic institutions listed in Section 5 of the essay.

That explains so much more than conventional macroeconomics—examples:

1. The essay explains and defines “**trade balance;**” a critical number for even a closed economy. It is very similar to what is meant by trade balance among countries with international trade.
2. This number is especially important to know in a closed economy which is highly imbalanced—caused when a minority of agents earn much more income than they spend for goods/service. That requires others to spend more than they earn.
3. Poor trade balance causes classic depressions/recessions that reduce GDP, increase unemployment, and also increase a supply of unsold “glut of goods”. It can also reduce both distribution of goods/services and income among agents.
4. High trade imbalance explains rapid increase of wealth inequality especially since the 1980’s. It is the same cause for the high wealth inequality characteristic of the Great Depression of the 1930’s.
5. Shows why debt is useful to rebalance an imbalanced economy, and which allows people to save by lending.
6. National debt is often assumed to be caused by irresponsible government spending. The essay shows that it is also a very important method for saving by allowing agents to purchase treasury bonds. $35 Trillion of “national debt” has been built up since 1955 by savers who have purchased Treasury bonds—which has been spent for public benefit, which moderate steady inflation insures will never need to be repaid.
7. The essay demonstrates need for proper amount of progressive taxation to improve trade balance. Transfer payments such as Social Security, when not done to excess, can improve an economy. Both need to be levels adjusted to correct trade imbalance.
8. Trade that is imbalanced by too much demand will result in inflation. Too little demand causes deflation or low GDP.
9. Why economic “growth” is necessary when productivity rises— not to produce more goods/services, but rather to obtain higher employment to maintain demand sufficient to balance trade. Higher productivity can increase trade imbalance.
10. Why when some save, they will “crowd out” others from saving.
11. Why tax cuts to people with high income reduces trade balance by reducing aggregate demand.
12. Why defaults on debts boosts economy by improving trade balance.
13. Explains “secular stagnation” as being caused by poor trade balance--insufficient demand.