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

By Ralph Hiesey Revised May 30, 2024.

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 it also applies to even a closed economy..

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 spent 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 Keynes' analysis is that with a single agent, imbalance cannot occur, so it does not show the weakness caused by "imbalance" that my 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.

That explains so much more than conventional macroeconomics—examples:

1. This macro has the benefit of defining an economic “**trade balance**” number, which is a guide used for balancing even a closed economy: by adjusting correct tax amounts and correctly allocating money distribution, and to plan correct amounts of transfer payments such as Social Security.
2. It is especially important in a (even closed) economy in which a minority of agents earn much more income than they spend for goods/service. This requires that others must purchase more than their income, thus producing highly imbalanced trade.
3. Explains rapid increase of wealth inequality especially since the 1980’s. Why high wealth inequality was also characteristic of the Great Depression of the 1930’s.
4. Why national debt, and therefore total value of Treasury bonds has gone up for the last 60 years, being reduced only once during Clinton administration, with no evidence that the surplus budget helped the economy.
5. Offers better explanation for what causes reduced aggregate demand that causes a recession/depression. It is "bad trade balance” rather than “low consumer confidence.”
6. Poor trade balance can cause classic depressions/recessions that reduce GDP, increase unemployment, and also increase a supply of a ‘”glut of goods”. It can also reduce both distribution of goods/services and income among agents.
7. Shows why proper amount of government fiscal debt usually helps an economy by improving trade balance. Shows why insisting on a "**balanced** government budget" can cause "**imbalanced** economic trade." “Trade balance” furnishes a much clearer, well defined justification for government deficits than reasons MMT promoters provide.
8. Taxation should be placed on high savers/(high income agents) if necessary to reduce trade imbalance. Demonstrates frequent need for correct amount of progressive taxation to improve economic performance.
9. How transfer payments such as Social Security, when not done to excess, can improve an economy by improving trade balance.
10. Trade that is imbalanced by too much demand will result in inflation. Too little demand causes deflation or low GDP.
11. Why economic “growth” is necessary with higher productivity— not to produce more goods/services, but rather to obtain higher employment to increase demand sufficient to balance trade. Higher productivity can cause trade imbalance.
12. Why when some save, they will “crowd out” others from saving.
13. Why tax cuts to people with high income reduces trade balance by reducing aggregate demand.
14. Why defaults on debts boosts economy by improving trade balance.
15. Explains “secular stagnation” as being caused by poor trade balance--insufficient demand.