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The theory of global imbalances: mainstream economics vs structural Keynesianism*

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Category: Research Article

Page Range: 45–62

Published: Jan 2015

DOI: <https://doi.org/10.4337/roke.2015.01.04>

Volume/Issue: [Volume 3: Issue 1](#)

Keywords: [global imbalances](#); [saving glut](#); [new Bretton Woods](#); [asset shortage](#); [structural Keynesianism](#)

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Prior to the 2008 financial crisis there was much debate about global trade imbalances. Prima facie, the imbalances seem a significant problem. However, acknowledging that would question mainstream economics' celebratory stance toward globalization. That tension prompted an array of theories which explained the imbalances while retaining the claim that globalization is economically beneficial. This paper surveys those new theories. It contrasts them with the structural Keynesian explanation that views the imbalances as an inevitable consequence of neoliberal globalization. The paper also describes how globalization created a political economy that supported the system despite its proclivity to generate trade imbalances.

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