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The U. S. is facing an unprecedented environment of increasing unemployment, declining income, disappearing middleclass, and mounting trade deficit (about $731 billion in 2007). The government is providing stimulus funds to a selected number of organizations to help solve these problems.

However, as long as the country continues to have huge trade deficits, these stimulus efforts may not help much, if at all. They may even worsen the economic situation. This could happen if the banking, insurance, construction, transportation, and other companies—receiving the stimulus funds—would offshore part of their production activities. Several American firms send certain number of jobs abroad on a regular basis. To continue to do so in the current tougher times would be only natural. There is no condition in the stimulus packages that would keep them from doing so. "Buy American" slogans may not much help persuade American consumers to buy the American products when, instead, they can go for the less expensive products made abroad.

Imagine Scenario # 1: (a) Banks receive stimulus funds; construction firms receive loans from banks. (b) Construction firms hire local people to build/improve houses, buildings, and bridges in the U.S. (c) Construction firms hire Indian engineers (working in India) to prepare the construction plans. (d) Construction firms purchase raw materials and finished items needed for the construction from both the U.S. and the Mexican suppliers. (e) Both the American and the Mexican transportation companies carry them to the construction sites. (f) Houses, buildings, and bridges are built under the supervision of Indian and American engineers.

Now imagine Scenario # 2: (a) American people receive stimulus money (through tax credits, bank loans, grants, etc.). (b) They use this money buy/improve their houses and other buildings. (c) They spend their money to purchase things they need for living from the local businesses such as, grocery stores, super markets, clothing stores, shoe stores, and other places. (d) These businesses, in turn, procure these items from both the American and the foreign suppliers.

As such, while the Americans may get some additional money through stimulus funds, their purchasing and consumption patterns would mostly remain the same. And as long as this situation persists to generate large U. S. trade deficits, the national employment, the individual incomes, the middleclass, the governmental tax-revenues, and the overall economy would continue to suffer as well. It will be like trying to fill a bucket with holes in it. In order to solve these problems, these holes must be closed first.

In a way, the current economic downturn is a blessing in disguise. First, it has exposed the U.S. to some of its major economic and cultural problems such as, its growing trade deficits and its policy of appeasement that keeps it from exporting its goods and services that it is entitled to do under the WTO guidelines and the bilateral trade agreements. Secondly, it has exposed its under-regulated businesses, their use of ever-expanding financial leverage, and their inexhaustible greed.

Thirdly, the weakening value of dollar and the growing recognition of euro as a world reserve currency should be good as well for the world economies, as they help the dollar surplus countries to diversify their investments into euros as well.

Finally, China, which is also facing many economic setbacks itself, is beginning to learn that it could have avoided these problems by using its dollar surpluses to buy (directly or indirectly) modern equipment, materials, and technology from the U.S. to improve its infrastructure, keeping its people employed, and making its output soaring. Of course, China can use its dollars to buy products from other countries of its choice. Eventually, however, those other countries have to use these dollars to buy products they need from the U.S. **It is high time to realize that paper dollars have no value until they are used to purchase goods and services from the country of its origin—sooner or later. What else can you do with stacks of paper money**?

Fiscal incentives were able to help improve U.S. economy during the Kennedy and the Reagan administrations—because the U.S. actually had a trade surplus during the Kennedy administration and, relatively speaking, a small trade deficit during the Reagan years. The monetary policies used by Alan Greenspan are held liable for the current economic and sub-prime loan crises. The growing trade deficits during the later part of his 16-year tenure (1987-2006) added fuel to the fire. Using the similar policies in the current situation—in the background of an ongoing huge trade deficit—would have very limited value, if any, in turning around the U.S. economy. How can anyone forget the utter failure of the tax cuts (fiscal policies) for the rich; and lowering of the interest rates (monetary policies) in trying to improve the U. S. economy?

So, what should the U.S. do? Here are my observations and recommendations:

My principal recommendation is that the U.S. must immediately begin working toward establishing trade equilibrium with all its major trading partners. I define “trade equilibrium” (TE) as a situation when trading among different countries is such that the trading partners would generally remain deficit-free from one another over a reasonable number of years. In other words, the value of a country’s imports would be equal to the value of its exports.

Using this theory of “trade equilibrium,” the U.S., hypothetically, should have exported $731 billion worth of more goods and services in 2007. The incremental capital inflow, caused by additional exports, would have created and/or, saved 7.31 million new U.S. jobs over the years. (According to the Immigration and Naturalization Act, an incremental capital of $1 million has the potential to create 10 new full time jobs).

Thus, had the U.S. followed the TE model, then, theoretically speaking, it could have created or saved 7.26 million new jobs in 2005, 4.75 million new jobs in 2002, and 2.14 million new jobs in 1998, and so on—as it had a current account deficit of $726 billion in 2005, $475 billion in 2002, and $214 billion in 1998.

For these job estimates, it is assumed that the trade deficit in a given year is wiped out in the same year. The important role of time lag has not been considered in these assumptions. However, I do recognize that in real life it will take some time for the orders for exports to come in, people to be hired, and production to begin. However, in a continuous system of imports and exports, this does not affect the fundamental value of the TE model in any significant manner

The additional imports of products by the dollar surplus countries would help them enrich their economy, jobs, and standard of living. Similarly, the incremental export of American products would help it grow its economy, jobs and standard of living.

Imagine the Scenario # 3: (a) The United States (its government, businesses, institutions, and/or individuals) announces its determination that, within the framework of free and fair trade, its mission is to bring parity between its imports and exports. (b) Hundreds of questions and answers begin to emerge about the TE model. (c) Eventually, countries begin to appreciate the mutual benefits of the TE model. (d) China, for example—which has been getting paltry rates (about 5% to 2.6%) on its surplus dollar investments in the ten-year U.S. treasury bonds—realizes that it could have earned 15% to 30% rate of return, instead, by investing those dollars in its own infrastructure development. Adding fuel to the fire, it also learns that the eroding value of its unused dollars is weakening its economy. (e) The U.S. making such a determination will be like the May 25, 1961 commitment made by the President Kennedy to land on the moon before the end of the decade. Actually, Neil Armstrong landed on the Moon on July 20, 1969—a little more than 16 months before the end of that decade.

Now imagine Scenario # 4: (a) The United States uses some of this additional exports of its products, and the associated additional capital inflow (for example, $731 billion in 2007) to import more products from abroad. (b) The "Trade Equilibrium" model helps multiply trade between countries. (c) It helps create a continuing stream of innovations, new skills, new resources, new methods, and new products. (d) The productivity increases; as does the mass production of customized products. (e) The corporate profits, employment, personal income, and the government coffers soar. (f) There is no need for the U.S. to print additional money to stimulate its economy. The U.S. exports and the associated return of its dollars would more than take care of it—year after year.

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Dr. Bhandari, who is writing a book on his theory of trade equilibrium, is a Professor of Management at Pace University, New York. His articles on this topic have been published in the proceedings of the NEBAA International Conference; the proceedings of the Academy of International Business, North East chapter, Conference; and the Proceedings of the Global Business Development Institute International Conference.

The trade data have been taken from the U.S. Department of Commerce publications.