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Narendra C. Bhandari
Lubin School of Business, Pace University

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TRADE EQUILIBRIUM, JOBS, & STIMULUS

Narendra C. Bhandari, Prof. of MGT., Pace University, New York
nbhandari@pace.edu
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ABSTRACT

As long as the U.S. continues to have huge trade deficits, the American jobs would continue to be off-shored and no net new jobs can be created. Spending billions of American stimulus dollars would end up stimulating foreign economies. It would be like taking wealth from the American workers and giving it to their foreign counterpart.

Traditional techniques such as tax cuts for the rich (fiscal policies), lower interest rates (monetary policies), and "buy American" (patriotic appeals) have failed to solve the problems.

In order to spur its economy and jobs, the U.S. "must" adopt, as its "mission," bringing parity between its imports and exports. Secondly, it must help its trading partners understand the benefits of using their surplus American dollars to buy American products. The "Trade Equilibrium" so established would help multiply trade between countries, increase corporate profits, and create jobs.

TRADE DEFICIT, JOB ELIMINATION, AND STIMULUS

The primary reason for America's shrinking economy, exploding national budget deficits, increasing unemployment, and declining personal income is its mounting international trade deficit which, according to the Department of Commerce, was at about $731 billion in 2007.

As long as the U.S. continues to have huge trade deficits, spending billions of dollars to stimulate its economy may not be very effective, if at all. Why? Because, the organizational recipients of these dollars (business firms and other entities) would send part of their production work abroad. Several American firms already do that on a regular basis. It would be only logical for them to continue to do so during the tougher times.

Similarly, the individual Americans would continue to spend a good part of the stimulus money they receive on buying the cheaper products made abroad.

As long as these transactions generate large U. S. trade deficits, spending billions of stimulus dollars will be like trying to fill a bucket full of holes. It will amount to sending American money to stimulate foreign economies. It is like distributing wealth by taking it from the American workers and giving it to their foreign counterpart.

So, what is the solution? Here are my thoughts on, first, the techniques which would not work; and then, the strategies which would.

THE TECHNIQUES WHICH WOULD NOT WORK

Fiscal policies (tax cuts) cannot much help create jobs because they can't help reduce trade deficit directly, if at all. Fiscal policies did help improve U.S. economy during the Kennedy administration—however, this happened because the country actually had trade surpluses during these years (1961-1962).

The monetary policies used by Alan Greenspan are held responsible 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.

The utter failure of the fiscal policies (tax cuts for the rich) and lowering of interest rates (monetary policies) used during the George W. Bush administration in order to improve the U. S. economy—in the middle of the mounting trade deficit—is well-known.

The "Buy American" philosophy would create its own problems. First, it would force American consumers to buy the U.S. products that are more expensive than their foreign counterpart. Second, millions of employees working for the firms dealing with imported products would face layoffs. Finally, foreign countries would retaliate by restricting imports from America, which in turn would hurt American exports.

TRADE EQUILIBRIUM, THE EFFECTIVE STRATEGY

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" as a situation when trading among different countries is such that the trading partners remain generally deficit-free from one another over the years. In other words, the value of a country's imports is equal to the value of its exports.

Mission Statement

To start with, the U.S. (its government, businesses, institutions, and/or individuals) "must" adopt, as its mission, to bring parity between its imports and exports—within the framework of a free and fair trade. Making this "Mission Statement" will be like the May 25, 1961 commitment made by the President John Kennedy to land man on the Moon before the end of the decade. With the entire country rallying around, Neil Armstrong landed on the Moon on July 20, 1969. This mission statement will become instrumental in establishing the kind of national and international trade relationships and framework necessary to achieve the mission. However, let me also caution that establishing the "Trade Equilibrium" between countries would be more challenging than the landing on the moon was.

Awaken and Educate

The dollar surplus countries such as Japan, China, and Saudi Arabia are currently using good portions of these dollars to buy American treasuries and other bonds—earning paltry rates of return on investments (about 5% to 2.5%). The U.S. must explain to these countries that they can instead earn 15% to 30% rates of return by investing those dollars in their own infrastructural development. Likewise, it should be explained to them that the eroding value of their unused dollars is weakening their economy even more.

It is not that these countries are unaware of the alternative uses of dollars, or their declining value. However, knowing something and actually doing it are two different things. Ongoing education will help persuade them to use their dollars to buy American products for mutual advantage.

Let me clarify that the dollar surplus nations don't have to use these dollars to buy products from the U.S. only. They can (and would) purchase them from other countries too. In the final analysis, however, all these countries would have to use this money to buy products from the U.S. It is high time for them to realize that this paper-money (or any other foreign

country currency) has no intrinsic value until it is used to purchase goods and services from the country of its origin. What else can they do with their stacks of foreign paper money? Understanding this simple reality would require education.

Multiplication of Jobs, Corporate Profits, and Government Coffers

According to the Immigration and Naturalization Act, an incremental capital of $1 million has the potential to create 10 new full time jobs. The U.S. then, using the "Trade Equilibrium" model, would have exported $731 billion worth of more goods and services in 2007. The incremental capital inflow, caused by the additional exports, would have created and/or saved 7.31 million U.S. jobs over the years.

The United States would certainly use some of its additional capital inflow, associated with its additional exports ($731 billion in 2007, for example) to import more products from abroad. Thus the "Trade Equilibrium" model would help multiply trade between countries. It would help create a continuing stream of new skills, new resources, new methods, and new products. The corporate productivity, profits, and share values would soar. Employment and personal income would increase. Tax rates would decline but the total tax revenues would grow. We would be able to balance budgets and finance social security and other programs at the same time.

Traditional bottom-up export promotion techniques such as tax-breaks, subsidies, conferences, trade delegations, and individual corporate efforts, valuable as they are, cannot do enough. They all measure their performance based on their own individual or departmental goals—without any meaningful reference to the overall national trade deficit. They deal only with parts of the problem.

My top-down concept of Trade Equilibrium begins with looking at the national trade deficit already accumulated. It then looks at the trade-deficits being added daily. Its dual mission is first to try to prevent the additional deficits from taking hold and then to try to reduce trade deficit already accumulated. It addresses the total problem.

No Trade Equilibrium, No Jobs, & Lower Standard of Living

Without Trade Equilibrium cannot save our jobs and we certainly cannot create net new ones. We will continue to blame management, labor unions, consumers, and governments for job loss. Without "Trade Equilibrium" there cannot be any truly open markets, standards of living would decline, tax revenues would go down, budget deficits would increase, and we will continue to lose our economic and political influence worldwide.