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Trade Equilibrium, Trade Deficits, and Jobs

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The U.S. sacrifices about ten full time jobs for each million dollars of net imports of goods and services. Its billions of dollars in trade deficit is the primary reason behind its millions of job losses. Loss of jobs, in turn, decreases income, demand, investment, and tax revenues. Budget deficits enlarge and programs of public and social care are curtailed.

"Trade Equilibrium," naturally, is the principal solution. In the short term it will put a stop on additional jobs exports. Over the years, it will also create net new jobs. There is no other long lasting practical way out of this mess (including the oft suggested ideas such as stimulus funds, dollar devaluation, yuan revaluation, education in math and sciences, and reduced interest rates) as long as the American consumers continue to buy more goods and services from foreign countries; and as long as the American corporations continue to transfer more production facilities abroad—which in turn continue to create the nation's massive trade deficit.

Here are some thoughts and recommendations to move toward the state of Trade Equilibrium. First, the U.S. must repeatedly explain and convince its dollar surplus trading partners (such as China, Japan, and Russia) that it is in their interest to use their dollars to buy American equipment, goods, and services to improve their infrastructure and standard of living. The U.S must illustrate how their return on infrastructural investments will be much higher than the paltry return they get from investing in the U.S. treasuries. It must demonstrate that sitting tight on billions of dollars declining in value is very imprudent for them.

However, convincing them as such would be a challenging job for the U.S. Each dollar surplus country has its own reasons to hold on to the American money. For China, for example, their dollar surplus is like an all gold industrial "trophy" it won competing in the world of economic markets. This surplus has helped China become a rising super economic and political power in the world. Economies of several countries, including that of the United States, depend upon the decisions made in Peking. The communist China also takes pride in the fact that while starting with an impoverished base; it has accomplished very high levels of economic achievements which its communist brethren Russia, militarily much stronger, could not. It is not that China does

[1] While in many ways this article on "Trade Equilibrium" is similar to my other articles on the same topic already published on the university website, it is also different in some other important ways (logic, contents, presentation, reasoning, etc.).

not understand the benefits offered by the state of Trade Equilibrium; it is just that it also recognizes the enormous economic, social, and political values of its hard-won all gold industrial trophies.

Secondly, the U.S. must frequently explain to its own business firms that billions of dollars would return home under the state of Trade Equilibrium. This incremental capital inflow would help create new investments, jobs, income, demand, and profits—as it also increases tax revenues, reduces national debt, and decreases personal and business taxes. On the contrary, the "stimulus money" currently in circulation does not amount to net new capital investments because it fails to curtail the American trade deficit. Similarly, the Keynesian assumptions to stimulate economy and jobs by increasing spending by creating budgetary deficits cannot work in the state of staggering trade deficit. Likewise, the multiplier effect of money, an important assumption in the Keynesian model, fails to work for the American benefit because, in the state of trade deficit, a part of the new money does not remain in America. No wonder the Chinese exports continue to surge.

Convincing American businesses about the enormous benefits offered by Trade Equilibrium will not be a simple task either. They are used to sending capital and establishing plant facilities abroad. They like the profits so generated for them. So why should they bother to convince their foreign counterparts to use their surplus dollars to buy more goods and services from America? Convincing them however is critical; because an unrelenting indebtedness to foreign countries is in effect a result of America's inability to pay back its creditors in the currency (goods and services) acceptable to them. It is because it is a sign of America's declining competitiveness, skills, and productivity.

Thirdly, a solution to America's large trade deficit with China is for the former to begin trading with other countries. Ideally, the new trading partners should be those who are able to supply products and services the U.S. wants to purchase—as they also need to import goods and services that America can provide. Clearly, it will take years to make such shifts. But the U.S. must adopt this strategy as soon as possible. The sooner America begins practicing this line of attack, the quicker will China find many more American goods and services that it urgently needs for its economy. We all know that the American firms and educational institutions regularly preach the principle that "customer is the king." Well, it is high time for the U.S., the largest buyer of Chinese goods and services, to begin acting like a king itself. It should tell China that if it wishes to continue to win those trophies, it must begin moving toward the state of Trade Equilibrium with the U.S, or else. Free and fair trade is a two-way street.

Finally, it is important to understand that the state of Trade Equilibrium is a positive-sum phenomenon, not a zero-sum game. Thus in order to have had Trade Equilibrium in 2008, the foreign countries must have imported goods and services worth an additional amount of $706 billion from the U.S. (the amount of trade deficit recorded that year). The U. S. in turn would certainly use part of this incremental capital inflow to buy more goods and services from foreign countries. And so on. The multiplier effect of moving toward the state of Trade Equilibrium will be increasingly beneficial to all. At this point, I should also explain some major differences between Mr. Obama's goal to double the U.S. exports in five years and the theory of Trade Equilibrium. Emphasis on "increasing exports" only encourages businesses to set individual goals to do so. Emphasis on Trade Equilibrium (which includes export promotion) makes it a national challenge.

The former, a bottom-up approach deals only with certain parts of a system. The latter, a top-down method, begins with the total system.