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TRADE EQUILIBRIUM: A MULTI-GENERATIONAL ECONOMIC POLICY

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ABSTRACT

This paper presents a brief statement of the mounting economic problems in America. A brief review of the American efforts to deal with these problems, with a particular attention to the American Jobs Acts of 2004 and 2009 is presented. It is followed by a brief survey of literature. A discussion of the author's theory of trade equilibrium shows that it would prevent further offshoring of American jobs, create millions of net new American jobs, eliminate American foreign debt, and help promote economic growth around the world.

OBJECTIVES OF RESEARCH

This paper has the following objectives:

1. A brief statement of the mounting economic problems in America.
2. A brief review of the American efforts to deal with these problems; with a particular attention to the American Jobs Acts of 2004 and 2009.
3. A brief survey of literature to present what different scholars have said about various American economic problems and what could be done to deal with them.
4. A discussion of this author's theory of trade equilibrium and how it can help America not only protect its current jobs, but also help it create millions of new jobs—as it helps America wipe out its trade deficit.

It is an article for public policy using an academic framework. I have been writing about this topic for the past several years (see References for details). A mountain of data cited in here have been checked and rechecked for accuracy and logic. The author regrets the confusion these data may create for the readers. The writing sequence of the article follows its statement of objectives for better understanding.

MOUNTING ECONOMIC PROBLEMS IN AMERICA²

The American economy, in spite of several efforts to improve it, continues to worsen in terms of its budgets, its national and foreign trade, its national and foreign debts, and its employment as shown by the following data.

National Debt

The total American national debt has two parts: (a) the public debt (it consists of government securities held by the public) and (b) the foreign or intra-governmental debt (it

consists of the American governmental securities held by the foreigners). Here are some numerical data on the American national debt:

1. As of February 2011, the U.S. debt held by the public was \$9.6 trillion and the intra-governmental (foreign) debt was \$4.6 trillion, for a total of \$14.2 trillion.
2. As of November 30, 2012, debt held by the public was approximately \$11.553 trillion or about 72% of GDP. Intra-governmental holdings stood at \$4.816 trillion, giving a combined total debt of \$16.369 trillion. (Wikipedia).
3. As of January 2013, \$5.6 trillion or approximately 47% of the debt held by the public was owned by foreign investors, the largest of which were the People's Republic of China and Japan at just over \$1.1 trillion each. (Wikipedia).

Trade Deficits: Annual

America had a negative trade balance of \$397 billion in 2001, \$801 billion in 2006, \$382 billion in 2009, and \$475 billion in 2012. Its cumulative total negative trade balance jumped to \$4.846 trillion on April 2, 2013.

Cumulative Job Losses Due to Foreign Debt

Since America loses about 3 jobs per \$1 million of net imports, it lost about 14.54 million jobs while accumulating the trade deficit of \$4.846 trillion, noted above, over the years.

Number of Americans Employed and Unemployed

Here are some numbers:

1. The U.S. **total number of non-farm employees** stood at 131.51 million in 2004; as compared to 133.74 million in 2012 (a minor increase).
2. Its **employment to population ratio** (for 16 years and over) declined from 62.4 percent in 2004, to 58.6% in 2012. This trend could worsen with technology induced productivity enhancements.
3. Its number of **persons not in the labor force** increased from 76 million in 2004 to 88 million in 2012 (for various reasons including non-availability of jobs, retirement, etc.).

In other words, since 2004 the number of Americans with jobs has declined, and the number of people without jobs has increased. Consequentially, a declining number of Americans with jobs are supporting an increasing number of fellow Americans without jobs. Millions of people, including children, live under poverty.

AMERICAN EFFORTS TO IMPROVE ITS ECONOMY

America has been trying to improve its economy, its fiscal situation (revenues minus expenses) and jobs for its citizens in many different ways. Several suggestions, such as follows, have been made to accomplish these goals:

Payoff the federal debt; do not add to debt except in emergencies; and borrow only to spur investments and to create jobs.

Balance the budget; do not spend what the country does not have; and place a cap on federal spending.

Eliminate wasteful and unnecessary programs; and evaluate each program for effectiveness and efficiency.

1. Encourage investments; and reduce unnecessary regulations and their costs.
2. Contain and trim social security and healthcare costs.
3. Make sure that everybody pays its fair share of taxes (the Buffett Rule); and close the tax loopholes.
4. Withdraw from international trade agreements such as, WTO, NAFTA, and CAFTA.
5. Place heavy duties on imports especially from China.

In addition to the above mentioned general suggestions to create jobs, America also created two specific laws to do so as briefly noted below.

Jobs Creation Acts of 2004 and 2009

The American Jobs Creation Act was created in 2004; followed by the American Recovery and Reinvestment Act in 2009. They aimed to promote American economy and create jobs through activities such as follows: (a) Build and rebuild American infrastructure (roads, railroads, airports, etc.), (b) Provide tax incentives to large businesses to repatriate their profits parked in foreign countries, (c) Provide tax incentives to large and small businesses to hire the veterans and the long term unemployed, (d) Prevent layoffs, (e) Build and rebuild public schools; and equip them with modern technology. (Sources: U.S. Government and White House publications.)

Problems Continue

These Acts did help create some new jobs in the short term, as they also helped save some jobs from being eliminated. However, they failed to prevent the American job market from continuing to deteriorate; as evidenced by the facts presented above. The fact that the U.S. found it necessary to create a second Jobs Act (of 2009) soon after it created the first Jobs Act (of 2004) within a short period of five years shows the failure of the 2004 Jobs Act in protecting and

creating American jobs. And the data presented above also show that the 2009 Jobs Act has been a failure too.

One may wonder why the 2004 and 2009 Acts cannot create net new jobs; or why does the proportion of Americans in the labor force, as noted above, continue to decline? It has some simple answers. One, it is due to America's growing negative trade balance. Two, it is due to America not taking any measurable actions to correct it.

SURVEY OF LITERATURE

Several suggestions and comments have been made about the U.S. economy and jobs. Here is a sample of what various writers stated in their writings.

The President's Export Council (PEC), appointed by President Obama in July 2010, has made several recommendations in the areas of promoting exports, protecting intellectual property, establishing a single window for exporters at U.S. Customs and Border Protection, and developing export transportation infrastructure (Barlas 2011). President Obama himself announced a National Export Initiative in January 2010, with the goal of doubling U.S. exports over five years (Barlas 2010).

Robert Reich (2010), a former Secretary of Labor, states that the Chinese economy continues to create export jobs, even at the cost of subsidizing foreign buyers, than allow the yuan to rise and thereby risk job shortages at home. Reich also states that a growing share of the U.S. total income is going to the richest Americans, leaving the middle class with relatively less purchasing power unless they go deep into debt. He continues to say that a prolonged jobs and earnings recession in the U.S, when combined with widening inequality, could create political backlash.

Alan Blinder (2009; in a book review by Vu 2010) suggests that the imbalance between workers' wages in developed and developing countries makes the transfer of a large proportion of impersonal service jobs to the developing world a near certainty, and likens its effect on U.S. labor to a "Third Industrial Revolution," with as many as forty million jobs hanging in the balance.

Jagdish Bhagwati (2009; in a book review by Vu 2010), on the other hand, argues that the offshoring debate is really being waged by opponents of free trade who fail to understand the economics of comparative advantage and that trade with poor countries has a negligible impact on our workers' absolute real wages.

Richard B. Freeman (2009; in a book review by Vu 2010) makes an appeal for a strong governmental response to the effects of offshoring—economic inequality in the United States—and calls for the strengthening of labor unions and an aggressive program to reform corporate governance and reinforce the social safety net.

Lori Kletzer (2009; in a book review by Vu 2010) focuses on developing a methodology for classifying which service sector jobs are most vulnerable to offshoring. Her conclusion is that many of the highest paying positions, requiring the highest levels of education, are the most easily offshored.

Douglas A. Irwin (2009; in a book review by Vu 2010) views Blinder's thesis as an assault on the principles of free trade. He goes on to claim that Blinder has failed to provide sufficient evidence to support his concerns. Irwin further argues that that the transition implied by offshoring will be smoother than what Blinder anticipates.

Robert Lawrence (2009; in a book review by Vu 2010), also questions Blinder's conclusions, declaring that he is unconvinced that the scale and pain, caused by offshoring, is going to be greater than we are already familiar with. He makes particular note of the time scales involved in such a large-scale market transition and maintains that the process will unfold so gradually that no severe shock need be feared.

According to Mishel et al. (2002) and Scott (2001), quoted in Hersh and Weller (2003), the disappearance of manufacturing drives displaced workers (and new entrants to the labor force unable to find manufacturing jobs) out of high-paying manufacturing jobs and into low-paying service jobs. Not only do former manufacturing employees suffer a pay cut from this shifting employment mix among industries, but the increased supply of workers to the service sector puts downward pressure on the wages of those workers already employed in service jobs.

Hersch and Weller (2003) recommend a strategic pause in the negotiation and ratification of any new trade agreements. They argue that the past trade agreements have only fueled the U.S. trade deficits. They further state that the past trade agreements have created comparative advantages for countries that eschew labor, environmental, and public health rights, thus sparking a race to the bottom to undermine protections for workers and society at-large.

Hersh and Weller (2003) also recommend a coordinated policy to ease the overvalued U.S. dollar and to prevent future currency misalignments that impair U.S. manufacturing. They also suggest closing the corporate welfare loopholes that amount to billions of dollars in subsidies for the export of U.S. manufacturing jobs and industries.

Hacker (2006; in a book review by Luger (2007) argues that increasingly, Americans find fewer and fewer public or employer benefits when it comes to health care, education, pensions, or job security. As Hacker puts it, economic risk has been shifted from government and corporations to workers and their families. In simple terms, you are on your own. It will take a few decades before the full consequences of this change become apparent, but all indications suggest that a reduced standard of living for the average worker is likely.

According to Hacker (2006; in a book review by Luger 2007), for many Americans, a health care crisis turns into a financial disaster. In fact, approximately one-half of all bankruptcies are the result of catastrophic health care bills.

According to Hacker (2006; in a book review by Luger 2007), Newt Gingrich best expressed the attack on traditional notions of shared risk when he said that "social responsibility is a euphemism for individual irresponsibility."

Graham, Hanlon, and Shevlin (2010) made a survey of tax executives about their companies' decisions surrounding the American Jobs Creation Act of 2004. When asking how the repatriated cash was used, they distinguish between the cash repatriated and other cash "freed up" by the repatriation.

They state that the Act did not require specific tracing of funds and that the use of repatriated funds was not required to be incremental to spending that would have occurred without the repatriation, thus the "freed-up" funds could be spent on anything. Their analysis indicates that the repatriated funds were used for capital reinvestment, training and hiring of employees, U.S. research and development, and the payment of domestic debt. The "freed-up" funds on the other hand appear to have been used primarily to pay down domestic debt and to repurchase shares.

Hersh and Weller (2003) state that the U.S. Export-Import Bank, created by Congress in 1934 to provide favorable financing and loan guarantees in promotion of exports, instead has become a tool for subsidizing the export of manufacturing capacity and jobs that compete directly with U.S. producers and workers.

Merchant and Kumar (2005) state that the current debate over outsourcing U.S. jobs neglects the broader context. While certain sectors of the U.S. economy, particularly the manufacturing sector (e.g., textiles), may be losing jobs due to cheaper imports, that loss may be offset by benefits to U.S. consumers (lower prices), stockholders (profits), and businesses (efficiency, productivity, and global competitiveness).

They continue to state that technology-led improvements in productivity may have played a larger role than trade in the majority of U.S. job losses. Manufacturing jobs have been lost in many other countries on that account. While some less-skilled, low-wage jobs have been lost, the U.S. labor market is moving toward high-skilled, high-wage jobs and education and training may be the solution to labor market woes.

According to Sum and McLaughlin (2010), the recession of 2007-9 turned into a Great Recession for U.S. workers. Substantial shedding of employees and reductions in weekly hours of work by corporations allowed labor productivity to rise sharply after 2008. None of these productivity gains were shared by wage and salary workers in the form of higher

real weekly earnings. These productivity gains were used to raise corporate profits at a higher relative rate than in any other post-World War II recession.

Sum and McLaughlin (2010) state that from 2007 to 2009 the unemployment rate of the United States doubled, rising from 4.6 to 9.3 percent. This increase was at least twice as high as in any of the other OECD members and was four or more times higher than five of these countries. The unemployment rate of Germany actually fell despite a larger drop in its GDP. By 2009, the United States had the highest unemployment rate of these ten countries.

TRADE EQUILIBRIUM A MULTIGENERATION ECONOMIC POLICY

Definition

According to this author, the term “trade-equilibrium,” an otherwise widely used term with different interpretations, may be defined as follows: “Trade Equilibrium is a situation when trading among various countries is such that the trading partners remain generally deficit-free from one another over a cycle of every 2-3 years.”

This theory of trade equilibrium has two major goals: (a) to stop exporting of additional American jobs and (b) to regain the American jobs already exported by “legally requiring” the dollar/trade surplus countries to eliminate their surplus over a ten year period by buying American products (goods and services). Further, according to this theory, it is the responsibility of America’s trading partners with dollar surpluses to make sure to meet the requirements of the trade equilibrium as defined here.

Within these 2-3 years cycles, a foreign country can of course use its surplus dollars to buy products from countries other than America. In that case these other countries would have the surplus dollars and, therefore, must use them to buy products from America to enable America to maintain its trade equilibrium.

Theory of Trade Equilibrium vs Keynes’ Theory

Keynes (1936) recommended that the government should borrow and pump money into the economy to create jobs—artificial or otherwise. The theory of trade equilibrium, however, would only need to use the billions of dollars that are already printed, but are currently sitting in the names of the dollars surplus countries. When these countries use these dollars to buy American goods and services, it would create real American jobs; millions of them—as it creates additional jobs in those foreign countries too.

TRADE EQUILIBRIUM'S POTENTIAL BENEFITS⁴

This author believes that his theory of trade equilibrium—if and when it becomes a practical reality—can help America bolster its economy, protect its jobs from further offshoring, and create millions of new jobs as discussed below.

TRADE EQUILIBRIUM WOULD PROTECT AND CREATE JOBS

There would be no new annual U.S. trade deficit—considering the world as a whole. There would be no additional net export of American jobs.

1. The American balance of trade would have a net trade surplus of about \$484.6 billion a year (through a 10% reduction of \$4.846 trillion of foreign debt, excluding interest). This trade surplus would necessitate an equal amount of net new investments in the American economy.
2. The U.S., due to its annual incremental exports of \$484.6 billion, would create about 1.46 million net new jobs per year for ten years. As such, about **14.6 million jobs would return home** in ten years.
3. **These changes would increase workers' income, reduce poverty, strengthen free enterprise, enhance stockholders' wealth, increase executive bonuses, raise tax revenues, and trim tax rates. They would eliminate foreign debt and reduce public debt.**
4. **The negative consequences on the American jobs of the American trade agreements such as WTO, NAFTA, CAFTA, etc. will all be eliminated.**

Trade Equilibrium, a Solution for Widening Compensation Gap

A fundamental reason behind the widening gap between the compensation of an average worker and an average CEO is the former's declining bargaining power. With the millions of jobs being offshored year after year, the average American worker is more concerned about getting or keeping a job; and less so about what his/her CEO is making. The threat of not getting a job or losing a job is too real to criticize the relatively much larger size of the CEO's compensation.

The enactment of trade equilibrium (see the definition above) would bring full employment for generations to come. Workers would not be afraid of their jobs being offshored. They can then work toward reducing disparity between their and their bosses' compensation.

Trade Equilibrium Would Eliminate Foreign Debt and Reduce Public Debt

Let us assume that American lawmakers pass the law of Trade Equilibrium making it effective January 1, Year 1. This act would then have the following implications for the American foreign debt (data related to interest and compounding have been ignored for this analysis).

1. There would be no new trade deficit and no new foreign debt on this account (see the definition).

2. The existing American foreign debt would be eliminated in ten years (see the definition).

This would also help reduce/eliminate the American public debt. Using Cohen, Freiling, and Robinson's (2012) research findings as a "broad" guideline, the \$484.6 billion dollars of annual new investment in the American economy would generate a total of about \$4.669 billion in additional annual tax revenues consisting of (1) about \$2.875 billion in new federal tax revenues a year and (2) about \$1.794 billion in new state and local tax revenues a year.

The new jobs would also help avoid additional tax expenditures that are incurred to support the unemployed Americans. Further, these tax revenues would take place without making any changes in the current tax code.

Where Would the Dollars Coming Home Go

Under the Trade Equilibrium Act, it would be the responsibility of the foreign countries to decide how to spend these \$484.6 billion dollars in America every year. Subject to the American laws, they can buy whatever American goods and services they want to.

Dollars coming back home would recreate jobs that were lost when the dollars went abroad due to trade deficit. If foreigners spend dollars visiting America as tourists, jobs would be created in industries such as transportation, hospitality, entertainment, banking, and insurance. These in turn, would create jobs in industries such as agriculture, agricultural machinery, transportation equipment, and furniture.

If the foreigners use their surplus dollars to buy equipment to improve their infrastructure, the jobs so created in industries manufacturing these equipment would, in turn, create jobs in industries such as retailing, transportation, and agriculture.

Manufacturing and in service industries are interdependent; they feed each other.

Failure of Economic Stimulus, Currency Valuations, and Other Efforts

Over the years America has spent billions of dollars to protect and create jobs. Unfortunately, however, the stimulus money so spent to develop infrastructure, give tax breaks, provide unemployment benefits, and support educational programs have failed to stop offshoring of millions of jobs year after year for two fundamental reasons. First, many of the American firms receiving the stimulus money invest some of it overseas. Second, the individual recipients of these benefits spend a good portion of these to purchase cheaper products made abroad. It is like trying to fill a bucket full of holes with water.

American efforts to manage currency valuations to protect and create jobs have also miserably failed. Under the theory of trade equilibrium, there won't be any need to artificially manage valuation of currencies. For example, once China realizes that it has to import

products equal to its exports, it would be more than pleased to let its currency flow freely and appreciate in value. This way it would not have to pay as much in yuan to import from America as it does today (with an artificially undervalued yuan).

Likewise, as America sees its dollar appreciating in value (with increasing exports), it won't have to pay as much for its imports the way it does today with dollar carrying a lower value.

Trade Equilibrium Would Benefit Foreign Countries

Using their surplus dollars to buy American products would help these countries to improve their own infrastructure and employment. The return on such investments would be much higher than what they currently earn by investing those dollars in the U.S. bonds. They would also not have to sit on the dollars declining in value.

Mainland China is America's largest single foreign creditor. Of the total American foreign debt of \$4.4 trillion in 2010, China was owed \$1.16 trillion. China should be commended for its achievements. At the same time, it is high time that it begins to use its surplus dollars to buy American products to help America meet its trade equilibrium goals.

At the same time, the **U.S. must spread its future imports around to diversify. It is unwise to so heavily depend on China for its imports.**

Trade Equilibrium, Increasing Population, and Increasing Productivity

America (and the world) should keep pace with the changing dynamics of economics. One, the world population is growing. Two, productivity, due to improving human skills and leap-frogging technology, is increasing at a rapid rate. As a result, although, the increasing population would generate additional demand for goods and services; the net demand for additional labor, overall, may not increase proportionately, if at all. It actually may decline which in turn would increase unemployment.

Trade equilibrium, on the other hand, would certainly create net new jobs.

CONCLUDING THOUGHTS

Trade Equilibrium Would Offer a Multi-Generational Solution

Trade Equilibrium would protect and create millions of American jobs. With more jobs and higher incomes, Americans would spend more on American and foreign products. The consequential **multiplication of free and fair trade and investments** between and within countries will provide a **multi-generational seamless solution** to the problems of unemployment and poverty world over. The ensuing **global economic growth would promote creativity, innovations, peace and prosperity**. It would be a **win-win, positive-sum economic stimulus, not a zero-sum game**.

Trade Equilibrium May be Initiated by Anyone

Any person or institution can initiate the U.S. move toward Trade Equilibrium. They include, among others, (a) President of the U.S., (b) the U.S. Congress, (c) Democrats, (c) Republicans, (d) the U. S. Chambers of commerce, (e) the AFL-CIO, (f) IMF, (g) IBRD, or (h) anyone else. Of course, Mr. Obama, the U.S. President, would be an ideal choice to get started.

Since the trade equilibrium would provide full employment for workers and enhance their incomes, pro-workers individuals and organizations should be glad to support it. Likewise, since the trade equilibrium would increase investment, corporate profits, shareholders' wealth, and executive bonuses, the free and fair enterprise supporters should be pleased to endorse it. And since the trade equilibrium would raise tax revenues and reduce tax rates; all the policy makers should be happy to lead its enactment.

This author believes that if America can create Jobs Acts of 2004 and 2009 to help create jobs, it can also create a trade equilibrium act that would guarantee full time employment. If it can create the Export Import bank of 1944 to help promote the U.S. exports, it can also legislate the theory of trade equilibrium that would guarantee zero trade deficit going forward and create an export surplus of \$484.6 billion a year for the next ten years.

Enforcement of Trade Equilibrium

This author's theory of trade equilibrium, if and when placed in practice, would involve some of the following issues of enforcement (the discussion of which is beyond the scope of this article):

1. It is the responsibility of the trade surplus countries to make sure that their imports from America are equal to their exports to America using a 2-3 year cycle.
2. America must also make sure that its trading partners abide by the requirements of the theory of trade equilibrium. Enforcement of this requirement would in turn, create several jobs.
3. America may have to make several formal trade agreements with its trading partners to comply with the requirements of the theory of trade equilibrium. This author also believes that a sheer discussion of the theory of trade equilibrium would encourage countries such as China to begin practicing those requirements. It cannot afford to lose America as its customer—unless, of course, if it wants to face an equivalent of “Arab Spring” in China.

Initially it may require America to reevaluate its relationship with the W.T.O. While America has a right to continue to be its member or withdraw from its membership (per W.T.O.'s Article XV), the U.S., however, should first explore the possibility of continuing its membership subject to the requirements of the theory of trade equilibrium. That would be in the W.T.O.'s interest too.

Trade Equilibrium Benefits Must be Thoroughly Evaluated

The United States must **thoroughly evaluate the premises, the mathematics, the simplicity, and the benefits of the theory of Trade Equilibrium** and compare it with similar other approaches, tried or imagined, and then consider legislating it.

SUGGESTIONS FOR ADDITIONAL RESEARCH

In order to fully evaluate the value and feasibility of legislating this author's theory of Trade Equilibrium, America needs to research and discuss the topics such as follows:

1. What would be the effects of eliminating new U.S. trade deficit on the U.S. public debt?
2. What would be the effects of eliminating additional offshoring of American jobs?
3. What would be the effects of reduced unemployment on the U.S. tax expenditures, such as unemployment benefits?
4. What would be the effects of billions of dollars coming back home on the various parts of American economy?
5. What would be the effects on the economy (jobs, infrastructure, return on investment, etc.) of the dollar surplus countries that would use those dollars to buy American products?
6. What would be the effects on the American national pride, security, and economic independence?

ENDNOTES

- 1 The author is very thankful to the anonymous reviewers for their comments on this author's another article that was while based on the same theory, but that compared his theory with the premises and contents of the Simpson Bowles Plan that was published in the Proceedings of the Allied Academies 2013 Conference in New Orleans. Their suggestions were very helpful in writing the current article and presenting certain numerical values in a more readable format.
The author is thankful to Ms. Aishwarya Kothapally for her research assistance; and to Pace University Lubin School of Business for its research support.
- 2 Bureau of Labor Statistics, Bureau of Economic Analysis, the White House, Wikipedia, the Encyclopedia, and, by reference, the relevant sources it used. Some sources have been cited individually wherever they have been.
- 3 Bureau of Economic Analysis, March 14, 2013, and others. (b) Wikipedia (2013). "National debt of the United States," Wikipedia, the free encyclopedia, retrieved on May 27, 2013.
- 4 Sources of data used: Bureau of Labor Statistics, Wikipedia—and by implication the sources it itself used! And others as noted! Analysis and calculations based on these data, if any, are by me.

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