

4-1-2006

The Balance of Payment Equilibrium Model, A Matter of National Determination & Leadership

Narendra C. Bhandari Ph.D.

Pace University, nbhandari@pace.edu

Follow this and additional works at: http://digitalcommons.pace.edu/lubinfaculty_workingpapers



Part of the [International Business Commons](#)

Recommended Citation

Bhandari, Narendra C. Ph.D., "The Balance of Payment Equilibrium Model, A Matter of National Determination & Leadership" (2006). *Faculty Working Papers*. Paper 44.

http://digitalcommons.pace.edu/lubinfaculty_workingpapers/44

This Article is brought to you for free and open access by the Lubin School of Business at DigitalCommons@Pace. It has been accepted for inclusion in Faculty Working Papers by an authorized administrator of DigitalCommons@Pace. For more information, please contact rracelis@pace.edu.

**THE BALANCE OF PAYMENT EQUILIBRIUM MODEL,
A MATTER OF NATIONAL DETERMINATION & LEADERSHIP**

Narendra C. Bhandari

Professor of Management, Pace University, New York

nbhandari@pace.edu

KEY WORDS (SUBJECT)

- 1 Balance of payment equilibrium model
- 2 Balance of payment equilibrium model and world prosperity
- 3 American export goals
- 4 American balance of payment deficits
- 5 American balance of payment deficits and role of leadership
- 6 American balance of payment deficits and role of dollar
- 7 American balance of payment equilibrium and strategic initiatives
- 8 American international trade and counting jobs
- 9 American international trade and definition of full employment

KEY WORDS (AUTHOR)

**Bhandari, Narendra
Narendra Bhandari**

**THE BALANCE OF PAYMENT EQUILIBRIUM MODEL,
A MATTER OF NATIONAL DETERMINATION & LEADERSHIP**

by
Narendra C. Bhandari
Professor of Management
Pace University
New York, NY 10038
Mobile: 732-236-9741
Email: nbhandari@pace.edu

© Narendra C. Bhandari

April 2006

THE BALANCE OF PAYMENT EQUILIBRIUM MODEL, A MATTER OF NATIONAL DETERMINATION & LEADERSHIP

Narendra C. Bhandari, Ph.D., Pace University, New York
nbhandari@pace.edu

EXECUTIVE SUMMARY

The U.S. continues to face balance of trade and payment deficits. There are several factors responsible for these deficits, as several techniques have been tried to alleviate them. These problems, however, have continued to worsen.

This research has the following objectives: (a) To present what I call, the balance of payment equilibrium model (bpe), and emphasize the need for numerical goals for international trade, to help solve the American balance of payment deficit problem; and help enhance the world prosperity; (b) To explain that dollar devaluation is not the real solution to the problem; (c) To suggest strategic initiatives to promote American exports; (d) To outline a new method of counting jobs; and (e) To present new ways to define the full employment level of a resource.

INTRODUCTION

The U. S. Balance Of Payment Deficit

The U.S. had a \$1.25 billion current account balance of payment (b/p) deficit in 1996. It jumped to a \$668 billion of deficit in 2004 (U.S. Department of Commerce 2005).

Some people argue that the increasing the American balance of payment deficit is a sign of America's increasing standard of living and prosperity. Others contend that real compensation in America is down (Crutsinger 2006, Economic Policy Institute 2006, Wessel 2004), that poverty is increasing, and that imports are financed by money borrowed from other countries.

Several factors are responsible for America's increasing balance of "trade and payment deficits" (TPD). These, according to Leonidou (2004), include limited information to locate/analyze markets, inability to contact overseas customers and identify foreign business opportunities, difficulty in matching competitors' prices, excessive transportation/insurance costs, different foreign customer habits/attitudes, poor/deteriorating economic conditions abroad, and political instability in foreign markets.

Different European Union members have different customs procedures, making it time consuming and difficult for the U.S. and other countries to export their products to them (Schroeder 2005).

A top advisory science panel concluded that the U.S. is losing its competitive strength in science and technology, which is also hurting its exports. The American loss in these disciplines shows up in the lower number of its engineering graduates, the lower performance of its 12th graders, and its lack of support for research and development—as compared to some other countries (Broad 2005).

There are also numerous examples of America's comparative decline in the areas of science and technology. These include, relatively speaking, the smaller number of research papers published by Americans, the smaller number of Nobel Prizes awarded to Americans, and the smaller number of significant discoveries and innovations made by Americans—as compared to some other countries (Broad 2004).

The most important reason is the lower cost of production abroad that makes it cheaper to import more, as the higher cost of production at home makes it difficult to increase exports.

The American Culture

All these reasons mentioned above for the worsening American balance of TPD are valid. However, there are some other reasons, less obvious, but more fundamental, than those listed above for this situation.

First, while many American companies, individually, do establish their goals for profits and sales, including for exports, the country as a whole does not establish any goals for exports. Planning, the primary managerial function is missing from the American export promotion process. Since this is not yet acknowledged as a problem, no strategies are in place to achieve these planning goals.

Second, ordinary citizens are not concerned about the effect their purchase of imported products has on the American balance of TPD. They do not seem to care about their country getting into debt to foreign countries—it is not their personal debt. Ironically, the Americans who have lost their jobs due to job exporting would have to buy the cheaper imported products to make ends meet.

Third, as President Bush said in his January 31, 2005, State of the Union message, the U.S. is addicted to the foreign oil. Let me add that the country is also addicted to importing several other products, along with its addiction to foreign borrowing to pay for these imports—as if a single addiction is not enough for an affluent society. These habits, however, have a serious long-term negative impact. According to the Time Board of Economists (2004), it is obscene for us to ignore the effects of outsourcing on those who are hurt by it. The historians would look back to say that this was in this period when the American economic leadership began to end.

Finally, more importantly, **Americans fail to recognize that an escalating 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.** America is in a state of denial. Accepting this fundamental economic truth would make it see the ugly heads of declining American competitiveness, skills, productivity, initiative, and innovativeness. The country doesn't want to recognize these realities of international trade much less accept and do something about them.

According to Warren Buffet, “the U.S. trade deficit is a bigger threat to the domestic economy than either the federal budget deficit or consumer debt and could lead to "political turmoil” (Noon, 2006).

OBJECTIVES OF THE RESEARCH

One way to reduce imports is by using techniques such as import quotas and higher tariffs. However, why should the American consumers purchase cars and trucks made in America, when they can buy better vehicles made in Japan, Germany, or Korea? Why should they buy clothes made in America, when they can purchase similar clothes at much cheaper prices made in China, India, or Mexico? Placing restrictions on such imports to bring about parity in American exports and imports will not only shortchange American consumers, it will also take jobs away from the millions of them employed in distributing and servicing these imports—such as the agriculture, auto dealerships and retail merchandisers. These imports, and the job exports associated with

them, are here to stay (Kristof 2006). According to Prahalad, outsourcing is not about exporting jobs, it's about importing innovation (Engardio 2006).

America can also reduce product imports through job-outsourcing (not job-exporting) within the United States. According to the U.S. Census Bureau, the three-year-(2002-2004) average median household income in New Jersey, Maryland, New Hampshire, Alaska, and Connecticut was more than \$55,000; while it was less than \$35,000 in Montana, Louisiana, Arkansas, Mississippi, and West Virginia. It means that a company located in the former states can save a lot of money by outsourcing jobs to the latter states. While the cost of production may still be much higher in those latter states than those in India, China, and Mexico, there are real advantages of outsourcing jobs within the United States, rather than exporting them overseas. These include the same English language, the same American culture, better communication, better quality control, and lower cost of transportation, among others.

However, restricting imports through quotas, duties, etc. (some of the widely used methods around the world), to solve the American balance of trade and payment deficits is not a subject of this research—nor is the subject of job-outsourcing (a very valuable method) within the United States.

Encouraging and educating Americans to save more and spend less, another useful technique to deal with the deficits is also not the topic of this research. For information, the rate of annual household savings, as a percentage of disposable income, is about 12 percent in the euro zone (Germany plus eleven other nations), about double the rate in Britain and Japan. Americans, however, save a little more than 2 percent (Clark 2004).

Instead, the objectives of this research are as follows:

- 1 To present what I call, the balance of payment equilibrium model (bpe), and to emphasize the need to establish national numerical goals for international trade, in order to solve the American balance of trade and payment deficits problems.
- 2 To explain that the bpe approach will benefit both the U.S. and the rest of the world.
- 3 To explain that dollar devaluation has contributed to the U.S. balance of trade and payment deficits. A further devaluation would worsen the situation.
- 4 To suggest educational, promotional, and leadership strategic initiatives to promote American exports to accomplish equilibrium in the U. S. balance of trade and payment.
- 5 To outline a new method of counting jobs that the bpe model can help create.
- 6 To present two new definitions to define the full employment level of a resource (labor, for example).
- 7 To suggest two new definitions to relate (a) the trade levels, (b) the balance of payment deficit, and the balance of payment surplus, and (c) the matters of national concern.

THE BALANCE OF PAYMENT EQUILIBRIUM MODEL

Widely different numbers (ranging from 100,000 a year to 3.3 million by 2015) have been used by a variety of scholars to estimate the number of U.S. jobs exported to other countries (Hilsenrath 2004, *Economist* 2004). **However, this article does not intend to calculate the actual number of the American jobs that are being exported. Instead, my objective is to suggest that the bpe concept can be used to eliminate the American balance of trade and payment deficits and that it can also help the U.S. and the world economies improve jobs, and standards of living simultaneously.**

This part of the article introduces the balance of payment equilibrium (bpe) model and some of its related issues.

Definition

The “balance of payment equilibrium” (bpe) is defined as the situation when trading among different countries is such that the trading partners remain debt free from each other over a reasonable number of years. In other words, the value of a country’s imports is equal to the value of its exports.

In order to put the bpe model into practice, the trading partners would have to establish and meet **numerical goals** for their exports and imports. The U.S., for example, should have exported \$726 billion dollars worth of products more in 2005 to bring its balance of trade and payment deficits to zero.

The additional imports would help the dollar surplus countries to foster their economy, jobs, and standard of living—as they also eliminate their dollar surpluses. Similarly, the incremental demand for American products would help America grow its economy, jobs and standard of living. A dollar surplus country, such as China, can buy the products it needs directly from the U.S., or it can buy them from other countries, and those other countries then can buy what they need from the U. S. **An important point to understand here is that China has to spend those dollars some day. What can China (or other countries) do with the billions of dollars it has been stockpiling?**

Now the question arises, how many jobs would these dollars create—if they came back home. The Immigration and Naturalization Act of 1990 provides one credible answer to this question.

BPE Model and Creating and Counting Jobs

According to the Sec. 203 of the Immigration and Naturalization Act of 1990, foreign nationals can qualify to immigrate to the United States in several different ways. These include, among others, certain types of family relationship, extra-ordinary ability, outstanding scholarship, and business acumen.

Further, its Section 203 (b) (5), marked “Employment creation,” says that foreign nationals can also qualify to immigrate to the U. S. if that would benefit the United States economy and create full-time employment for not fewer than 10 United States citizens or aliens lawfully admitted for permanent residence or other immigrants lawfully authorized to be employed in the United States (other than the immigrant and the immigrant's spouse, sons, or daughters). The amount of capital required under this subparagraph is \$1,000,000.

In other words, the Act is based on the premise that an incremental capital of \$1 million has the potential to create 10 new full time jobs. (During a recent interview, the United Arab Emirates economy minister, Sheikha Lubna al Qasimi, also stated that every billion dollars of foreign investment in the U.S. creates 10,000 new jobs (CNN 2006)).

Now let me use this premise to count the new jobs that the dollars coming home could create. In order to answer this question, let us review Table 1 that presents the U.S. balance of payment deficit on current account for the 1996-2004 years. We now apply the premise (\$1 million investment = 10 new jobs) to the B/P deficit numbers presented in the table. **It shows that had the U.S. followed the bpe model, then, theoretically speaking, it could have created millions of new jobs during this time-period—that is, 1.25 million new jobs in 1996, 2.14 million new jobs in 1998, 4.75 million new jobs in 2002; and 7.26 new million jobs in 2005, and so on.**

Depending upon the type of criteria used for its calculation, the United States owes \$2.5 trillion+ to \$15 trillion to the world. In 2005 alone, it added \$726 billion to its external debt (Economic Policy Institute 2006). If America's trading partners would use this year's dollar surpluses alone to buy U. S. products that could create 7.26 million new jobs in America.

Now imagine that the U. S. would use some of this incremental demand and capital (\$726 billion) to buy more products from foreign countries. And so on. The multiplier effect of this model will be huge. It will help create a continuing series of innovations, inventions, new skills, new resources, new methods, and new products. The productivity would increase. Customized mass production would become the norm. The corporate profits, employment, personal income, and the government coffers would soar. **An intangible, yet enormous, benefit of the bpe model would be the sense of national pride that it would help generate. Eliminating the American balance of trade and payment deficits would become a matter of national challenge that the American citizens would love to meet head on—just as they achieved their goal of agricultural self-sufficiency during the postwar period.**

Because the bpe model presents a win-win situation both for the U.S. and its trading partners, promoting American products abroad will not annoy these partners, nor would it give them a cause for retaliation. Imposing restrictions on their exports to America to eliminate the American balance of trade and payment deficits will.

It would herald the dawn of a new economic dialogue and culture beneficial to all. Over the years, its benefits would be many times more than that of the industrial and the Internet revolutions combined. Referring to some recent studies (Evans 2001), the then Secretary of the U. S. Department of Commerce, said, "Eliminating all (global) trade barriers would add nearly \$2 trillion to the global economy, equivalent of creating a new economy the size of two Chinas."

Let the U.S. begin with the bpe goals.

BPE Model and Theories of Marginal Returns

Let me comment on the role of theories of marginal returns on counting the number of jobs the bpe model could create. First, if America's trading partners had used their 1996 surplus of \$117 billion in the same year, then, according to the bpe model theoretically speaking, that would have created 1.17 million new American jobs in the same year (time lag has been ignored for the purpose of this discussion).

Secondly, with \$128 billion coming back to the U. S. in 1997, one could ask, would it create an additional 1.28 million jobs in 1997? Theoretically, yes. A more accurate answer, however, would depend upon the variables such as, the multiplier effect of the \$117 billion dollars returning home in 1996 and, and how the laws of diminishing and/or increasing returns would apply to the productivity of 1.17 million jobs created in that same year. These are some important topics for further research.

However, we do not need to prove the common sense theory that more demand for goods and services would create more jobs. I think the more pertinent questions are:

(a) With its current 4.9% rate of unemployment (Dunham 2006), a very low rate in years (and as other resources are approaching full capacity), can America handle such huge annual increases in demand for its products?

(b) Wouldn't these increases in demand for products, and the capital inflows associated with it, cause inflation?

(c) At what level of balance of payment deficit, should a country become concerned?.

Let me address these questions.

BPE Model and Production Capacity: New Definitions

America is not at full capacity, and it never would be in the near future. The same argument, may be more so, would apply to the rest of the world. To understand this argument, we need to redefine the concept of the capacity of a resource (labor, capital, equipment, land, etc.). For example, the conventional method to define the concept of labor capacity utilization is to express it in terms of the number of people employed and unemployed. This is incorrect. The capacity of the labor should be defined in terms of its potential to produce. I will present two methods to define the capacity of labor using this potential criterion.

At a national level, **the full employment level of a resource (labor, for example) may be defined as the stage where it can produce all that it can, with the help of other resources (technology, capital, management, land, etc.).** Thus, the labor is considered fully employed when it reaches its full productivity potential level. Until then, it is not fully employed. In other words, there is an excess capacity of labor.

The average world GDP per person, in year-2000 dollars, was \$250 in the year 1800. It jumped to \$8,175 in the year 2000. During the same period, the world population increased from 900 million people to 6,120 million people (DeLong online). To paraphrase Mark Twain, the rumors about the lack of production capacity in America (and the world) are greatly exaggerated.

Secondly, **the full employment of a resource (labor, for example) may be defined as the amount of production needed to provide a reasonable standard of living for everybody.** Using the federal thresholds for poverty levels (\$18,850 of income for a family of four, excluding for Alaska and Hawaii), there were 34.6 million poor people in the U.S. in 2002. Most Americans think that it takes about \$35,000 annually to adequately house, clothe, and feed a family of four (U.S. Census Bureau, Current Population Survey, September 2003).

The difference between the two, \$558.790 billion ($\$35,000 - \$18,850 \times 34.6$ million), is the potential labor capacity that remains either unused, or could be built through higher productivity of resources—just to bring these millions out of poverty alone. The actual potential is higher, considering, among other things, that many of these 34.6 million people have income less than the federal poverty threshold.

I should note here that there is no upper limit of income in the BPE model, nor is there the redistribution of wealth a topic of discussion.

The worldwide differences in income are much wider. The per capita income in 2003 for selected countries were as follows: Norway, \$37,670; U.S., \$37,562; Japan, \$27,967; U. K., \$27,147; Mexico, \$9,168; China, \$5,003; India, \$2,892; and Niger, \$835.

Let us begin with the bpe goals first.

BPE Model, Inflation and Other Concerns

What would be the effect of such huge incremental demand for U.S. products and the associated capital inflow on the U.S. inflation and interest rates?

It will help promote the U.S. economy, jobs, standard of living, productivity, and research and development. With so much additional capital available, the interest rates would go down, not up. The cost of capital, production and prices would all go down, not up. The declining prices of many technology products (computers, telephones, televisions, etc.), although their demand is skyrocketing, supports this premise. The production capacity would also increase.

Thus, the fear that a substantial increase in demand would cause inflationary pressure is clearly unfounded.

Years ago, while teaching a doctoral course at the University of Georgia (at Athens), Dr. David McCord Wright, an economist, said that “ **a resource is not, it becomes.**” The statement that Thomas J. Donohue (2004), the President and CEO of the United States Chamber of Commerce, made about NASA’s accomplishments, amply illustrates that lesson:

“For the past 40 years, NASA scientists and engineers helped create entire new industries and transferred more than 10,000 NASA-developed technologies to the private sector. Nearly every U.S. industry has benefited from NASA discoveries, especially key industrial sectors such as transportation, public safety, and health and medicine. GPS (Global Positioning System), smoke detectors, and special biopsy needles are just a few examples of real-world applications of NASA-developed technologies. Clearly, Americans have gotten a huge return on their modest investment in the U.S.Space program. It vindicates those who bravely and painstakingly pursued a vision that skeptics once called unaffordable, foolhardy, and wasteful.”

Peter Drucker (1954, p. 4), a management maestro, said something similar about resources, when he said that management is responsible for making resources productive for organized economic advancement.

The increase in demand for products, and the additional capital inflows, will help enhance/create such resources.

Let America establish the bpe goals first.

BPE and Trade Levels, Some New Definitions

Using the bpe model is a matter of choice. There are situations where the U.S. might not be concerned about a few billion dollars of trade and payment deficits. It might purposely create a deficit to help develop its trading partners. That is its choice. However, if these deficits are created by America’s inability (technological, managerial, marketing, etc.) to export more, then there is a clear need to follow the bpe model.

So, for the purpose of the bpe model, **the levels of trade and payment deficits at which the a country must become concerned may be defined as those levels where the deficits are not voluntarily created, but are a result of the country’s inability to export more to pay for its imports.**

Similarly, **the levels of trade and payment surpluses at which a country must become concerned may be defined as those levels where the surpluses, if they are not used to import more, would restrict improvement in its economy, jobs, and standard of living.**

BPE Model, So What Else is New?

It is widely known that incremental demand and capital inflows (in this case, from foreign countries) would help enhance American sales, jobs, standard of living, and the overall economy. Henry Ford increased his workers’ wages using the same logic. John Maynard Keynes recommended increasing the money supply in order to promote economic development. The U.S. Immigration and Naturalization Act 1990 use the same logic and condition in allowing foreigners to immigrate to America.

The concept of establishing quantitative goals is not new. Setting such goals has been regularly recommended by professionals such as Peter Drucker (1985, 2001) and William Reddin (1971). Emphasis on increasing exports and reducing imports is not new either. However, to emphasize the significance of establishing quantitative goals in order to establish equilibrium in a country’s exports and imports, to relate such equilibrium to improving economic

growth, jobs, and standards of living all over the world, and to create a national (and international) awareness of the benefits of establishing such equilibrium is new.

Decades ago, Schumpeter said that, “ the functions of entrepreneurs is to....producing a new commodity or producing an old one in a new way, by opening a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on....It consists in getting things done” (1950).

SETTING GOALS

Sales are the starting point of any economic activity; and planning (setting goals and selecting strategies to accomplish them) is the primary management function (Management 101). According to Drucker (1954), management by objectives is prerequisite to performance. To paraphrase Reddin, the objectives are standards of effectiveness, which should be as specific, as time bounded, and as measurable as possible (1971, p. 23).

Setting the bpe goals is the most important requirement for the operation of this model. It is also its most important contribution to the enrichment of the American and the world economy, jobs, and standards of living. Initially, the bpe goals may be established as long-term goals. Based on these long term goals, America should establish its medium and short terms objectives. All goals and objectives should be established using a flexible, twelve monthly, rollover method (Bhandari 1982), based on its actual monthly and yearly balance of trade and payment experiences.

In setting these goals, the U.S. should learn from the mistakes made by many U.S. companies such as those who went into Europe in the 1960s without understanding the labor laws in the host countries. It can also learn from the Japanese real estate investment debacle in California during the 1990s, which was caused by their failure first to understand some elementary facts about zoning and taxes in the target area (Drucker 2001, pp. 137-138).

Opportunities to increase exports can be identified by sources such as individual country websites, meetings with potential importers, consultants, and surveys. Based on this knowledge, the U.S. should establish its goals and objectives (broken down by industry, firms, products, and regions) to increase its exports in order to reduce/eliminate its balance of trade and payment deficits.

CONVENTIONAL STRATEGIES

Several suggestions have been made to promote American exports and to reduce its balance of trade and payment deficits. Let me explain why many of these conventional strategies have some fundamental weaknesses.

Conventional Strategy: Free Market Mechanism

Some people “believe” that the American policy of free trade would help it correct its balance of trade and payment deficits problems. However, this theoretical belief has no practical value. The American policy of free trade is not very free. Other countries have much more freedom to export to America, than America has to export to them. America also has placed various kinds of restrictions on imports.

Alfred Marshall’s (1949, 1961) pure theory of foreign trade was based on the assumption of a perfectly free market. Such a market did not exist in the nineteenth century, when he took pains to develop this classical model. It does not exist now, and it does not seem that it will happen any time in the near future. Actually, international trade, today, is taking place under

conditions that resemble what some scholars described as “monopolistic competition” or “imperfect competition” (Chamberlin 1948, Dewey 1969).

In the late 1990s, some Americans were not worried about the growing trade deficit, pointing to the sizeable surplus in its increasing exports of the “advanced technology products.” Today, unfortunately but quite predictably, that situation has reversed. America had a record trade deficit of \$5.6 billion in the area of advanced technology products in November 2004; with a staggering deficit of \$36.9 billion for the most recent 12 months (Norris 2005).

The dollar surplus countries such as China, Japan, Mexico, and Saudi Arabia are acting as monopolies or oligopolies, creating and perpetuating imperfect competition in world trade. **It is futile to believe that these countries would suddenly wake up, shocked by seeing the shrinking value of their dollar holdings, and go on a spending splurge in America (in order to save their dollar values from additional erosion), and help America solve its problems of balance of trade and payment deficits. These dollar surplus countries are as oblivious and ignorant of the benefits of using their dollar surpluses sooner rather than later, as the U.S. is to the merits of making an all out effort to bring these dollars back home—in the form of new purchase orders or direct investment.**

Conventional Strategy: Dollar Devaluation

Some people suggest that the American dollar should be devalued, or the renminbi (the Chinese currency) be revalued, in order to help America increase its exports and reduce its balance of trade and payment deficits. However, this argument (which has some value in some situations), is not supported by the historical facts that over the years, as the value of the dollar has declined, its exports, relatively speaking, have also declined, while its balance of trade and payment deficits have soared.

I believe that the U.S. has it all backwards. **The current value of the dollar is not the cause of its deficits, it is reflection of the effect of those deficits—which in turn is the result of America’s losing competitiveness in world markets. It cannot sell enough to pay for its purchases.**

Warren Buffet is doubtful that an upward revaluation of the renminbi (or, a further decline in the value of dollar) would greatly reduce the American balance of payment deficit (Noon 2006).

Mathematically speaking, even if China revalues its currency, say by 10 percent, it would reduce the American balance of payment deficit only by 10 percent, and only with China. At the same time, it will have to pay more for its imports from China and other countries, while receiving less for exports. The net effect of yuan revaluation on the American balance of trade and payment deficits is quite complex, and an important topic for further research.

Let me hasten to add that I am not recommending to artificially revaluing the dollar against foreign currencies. The former USSR presents a classic example of the negative effects of artificial over-valuation of a national currency. Before the collapse of this communist empire, the Russian ruble had a higher value than that of the dollar. The world community traded with the USSR believing that the value of ruble was supported by its large hoard of gold bullion and the strength of its state controlled economy —both unsubstantiated.

In 1991, the last year of the Soviet Union, the midyear exchange rate of the ruble was R42 to \$1. At the end of 1995 it traded at R4,640 = \$1, when Russia was suffering from chronic inflation. On January 1, 1998, Russia redenominated the ruble—One new ruble = 1,000 old

rubles. It traded at about R6 = \$1, until August 17, 1998. It now trades at R28.4 = \$1 (Bernstam and Rabushka 2001).

The value of dollar will be determined by America's relative strengths of exports versus imports. A higher value would be the result of its increasing competitiveness and strength in its exports versus imports. Moreover, this should be a matter of pride, not concern.

Conventional Strategy: Science, Math, and Engineering

It is often suggested that the U.S. can improve its economy, job market, standard of living, and exports by increasing its number of faculty and students in the areas of science, math, and engineering (Broad 2005). This suggestion, while very valuable, needs further analysis. First, it would take several years for these professionals to complete their education, and then many more years to innovate and solve the American problems of economy, jobs, exports, and balance of trade and payment deficits. Second, there is no guarantee that these professionals would have suitable jobs waiting for them once they graduate. As an example of this point, in a survey of more than 200 multinational corporations, the researchers found that many companies are planning to establish/enhance their research centers in China and India (Lohr 2006). Likewise, in a recent survey, *BusinessWeek* (March 6, 2006) reported that only 4 percent of U.S./Canadian executives focus on innovation, as compared to 16 percent of Chinese executives.

Finally, it is not certain that once any research and development work has been completed in America, the products coming out of this expensive and time-consuming effort would be produced in the U.S. and thereby help the U.S. economy, jobs, exports, and deficits. U.S. companies may very well produce these products abroad—as the cost of production would continue to be cheaper in the developing countries for the near future.

The bpe model offers a major advantage in this respect. According to the model, America should first concentrate on increasing its exports using what it already produces. The incremental job orders and the incremental capital inflows so generated would help it improve its exports, economy, jobs, and standard of living. This would also help it provide more support to the areas of science, math, engineering, research, and development, among others.

In other words, the bpe model would help enhance the American economy, etc. using its current resources (plus some small additional funds for promoting what America already produces). On the contrary, the conventional suggestion, to first invest large sums of money in science, math, and engineering is based on the assumption that these upfront investments made today would, after some undetermined number of years, bear fruit and help the American economy, jobs, and exports. I have no qualms about the value of increasing investments in these disciplines. This, however, should be done using the bpe approach, which is simpler to implement, less expensive to operate, and will provide positive results much sooner—as compared to its conventional counterpart.

Other Conventional Strategies

Several other strategies have been recommended to help increase American exports and eliminate/reduce its balance of TPD. For example, John Kerry proposed tax breaks to encourage U.S. companies to bring home to the States their earnings held abroad—currently estimated at about \$600 billion (Davis and Harwood). It is suggested that America should encourage foreign direct investments in America—such as those made by Samsung of South

Korea (Belson 2004) and Toyota of Japan. Likewise, The U.S. Commerce Department, through its various agencies and offices (Rockwell 2004), should continue to provide and strengthen information about opportunities for export, location of these opportunities, and how to utilize them. Similarly, America should convince foreign countries to expedite their decision making process and simplify customs policies and procedures to facilitate American exports.

However, all these suggestions, useful as they are, have proved grossly insufficient over the years to solve the American trade and payment deficits problems.

STRATEGIC INITIATIVES FOR REALIZING THE BPE GOAL

In spite of all the conventional strategies discussed above, the American trade deficit scored a new high, a staggering 726 billion, in 2005. So what else could be done to attain the bpe goal for America? I suggest the following “**strategic initiatives**” to reach this goal.

Educational Initiative for Trading Partners

America should vigorously help its trading partners (particularly those holding dollars) understand that it is in “their” best interest—for the reasons presented below—to use these dollars (directly or indirectly) to buy American goods and services, sooner rather than later.

First, this would help them improve their agriculture and industry; their infrastructure of roads, waterways, airports, tunnels, and bridges; and their educational and healthcare facilities, among others.

Second, they would earn a much higher rate of return (15-25 percent) building these assets in their countries, as compared to the meager returns they are getting by investing their dollars in U.S. treasuries and bonds (the ten-year treasuries are currently paying about 4.7 percent). The multiplier effect of the differential advantage would be huge.

Third, eventually, they would have to spend those dollars—what else can they do with them? However, since the value of the dollar is declining over the years, those dollars would buy more U. S. products today than they will tomorrow. This would be true even if China, for example, continues to maintain almost fixed exchange rate to the dollar (\$1 = 8.608 yuan on January 1, 1995 versus \$1 = 8.2765 on yuan on January 1, 2005)—because the price of U.S. products would continue to rise due to inflation.

In spite of all these reasons, why the dollar surplus countries such as China, Japan, and Mexico are not using their dollars to buy American products is a topic for further research. In the case of China, for example, it may be afraid of the increase in the demands from its people for freedom of speech, government openness, human dignity, and individual rights, among others, that would follow improvement in its economy, jobs, and standard of living, pursuant to the use of its surplus dollars.

Or, it may be that the dollar surplus countries are concerned about the national and global economic upheavals—such as, inflation, losses from the additional dollar devaluation, etc.—that may happen if they spend all their surpluses. Again, these are not the topics of analysis for this article.

In any case, in order to calculate the net effect of a country (Mexico, for example), spending its dollar surpluses, both its negative effects (for example, the losses from the additional dollar depreciation), and its positive effects (for example, the gains in economy, jobs, and standards of livings) should be considered. I believe that the net result would be quite positive for Mexico, as it also will be for the U.S. The opportunity cost of Mexico spending its surplus dollars is only about 4.7 percent (the current rate on the 10-year U.S. treasuries), while its

internal rate of return from investing these dollars in improving its infrastructure is 15-25 percent. That is a huge difference.

In fact, the economic dangers would arise much sooner and would be much deeper if the surplus countries would continue to hold those dollars in the treasuries and the like instruments.

These are more the reasons for the educational initiative.

Educational Initiative at Home

A primary reason behind the weakness of the American export market is that not many people realize its significance for the American economy, business, employees, and standard of living. American firms are busy looking into outsourcing jobs to save costs, American employees are busy finding other jobs, and American leaders, media, and scholars are busy criticizing or justifying the trend. Here are some suggestions for changing this culture.

First, the President of the United States should have fireside chats every quarter with the American people, to motivate them to increase exports, to bring the bpe model into its international trade practices. He should go around the country to explain the significance of increasing American exports to the U.S. economy, jobs, and standard of living. **He should lead the country in building the U.S. determination to bring its balance of trade and payment deficits in control, and to import jobs.** (Jobs exports may not be so easy to control.) This will immensely enhance his stature, as it creates better paying jobs in America.

American scholars and the media should have a public discussion of how America, using its current skills and strengths, can import jobs through new purchase orders from abroad, and through new foreign direct investment in America.

American organizations and individuals interested in increasing exports, such as the U.S. Congress, Department of Commerce, the U.S. diplomatic and business representatives abroad, chambers of commerce, trade associations, consumers groups, labor unions, business leaders associations, educational institutions, and others, should discuss the ways and means to accomplish the bpe goal.

International institutions such as the World Bank, the International Monetary Fund, the United Nations Agency for Trade and Development, EEC, NAFTA, G-8, and all the rest should be invited to discuss the significance of the bpe for the U.S. and its trading partners, and then do something about it.

The American business and government representatives should regularly (say, once a quarter) call upon foreign governments and businesses to help increase their imports from America, and initiate/expand their direct investment in America.

There is so much to talk about at all these meetings, such as economic development, markets, expansion, profits, opportunities, products, process, paper work, insurance, financing, customs, obstacles, clearing agents, banking, competitiveness, etc. They should also discuss the gamut of foreign direct investment opportunities and advantages that the U.S. offers, such as, huge markets, tax breaks, skilled labor, experienced management, reliable suppliers, quality products, nation-wide transportation network, established banking procedures, opportunities to raise capital, etc.

Recognized “strategic models” such as, “competitive strategies” (Porter 1988, 1996), “strength analysis” (Drucker 1995), core competencies (Hamel and Prahalad 1994), and synergistic fits (Ansoff 1988, Porter 1996) can be used to implement the **strategic initiatives** presented above to accomplish the bpe goals and objectives.

Promotional Initiative

America needs a well-formulated, well organized, and very aggressive approach to promote American exports, in order to realize the bpe goals. It must increase significantly its efforts to build strong relationships with business, political, and academic leaders all over the world, particularly in the dollar surplus countries. It should increase its promotional and educational efforts to explain the utility, value, and pricing of the American products. It should explain that the increasing American balance of trade and payment deficits is unsustainable and will be harmful worldwide in the end. According to Schuster and Lundstrom (2002), America should “change governmental policy from laissez faire posture to one of a strong, aggressive international stance that will benefit companies who have often believed that they were at a serious disadvantage to competitors from other countries.”

LEADERSHIP

Implementation of the bpe model will be an evolutionary process, which, to rephrase Schumpeter, would be “lopsided, discontinuous, and disharmonious by nature...” (1939, Vol. I, p. 102). However, these problems are not insurmountable. Under proper leadership, this evolutionary process can revolutionize the economic thinking, and help enhance jobs and standard of living in America, and the rest of the world.

According to Drucker, “The foundation of effective leadership is thinking through the organization’s mission, defining it, establishing it, clearly and visibly. The leader sets the goals, sets the priorities, and sets and maintains the standards...” (Drucker 2001, pp. 269-271). To put the bpe model in practice, to paraphrase Drucker (2001), America needs leaders like Winston Churchill, an example of leadership through clearly defining mission and goals; General George Marshall, an example of leadership through responsibility; and Alfred Sloan (who led General Motors from 1920 to 1955), an example of leadership through the work ethic.

Americans are known for accepting and responding to challenges, large and small. President Kennedy’s bold and historic 1961 mission statement to reach the moon is just one such example of the successful American resolve at the national level (Gaffney). GE’s “six-sigma” (Byrne 1998) approach provides an excellent example of a successful strategy developed by an individual firm.

In the matters of national pride, help comes from all quarters. When the failure of the shuttle tiles created a crisis for the NASA’s space program in the late 1970’s, the University of Washington’s engineering professor James Mueller, his research collaborators, and their undergraduate and graduate students “played a key role in the final solution to the tile problem, developing superior insulation material as well as methods of its attachment to the shuttle” (University of Washington, Office of Research 1996).

The bpe goals can be attained. They need to be established first.

CONCLUDING THOUGHTS

There are several questions that are pertinent to the bpe model, which I did not discuss at length, if at all, in this article. Here are some of those topics with some brief comments.

First, should other countries also adopt the bpe model? Yes, they should. The model is beneficial to all. However, the U.S., with the largest balance of trade and payment deficits, should take the lead in following this model.

Second, this article did not discuss the effect of making some structural changes (import quotas, custom duties, government funded medical and health care benefits, such as in Japan) on the American balance of trade and payment deficits.

Third, how soon should the dollar surplus countries use these dollars to buy American products? I would recommend that they do so as soon as they realize that doing so would help enhance their economy, jobs, and standards of living. Again, if they do not have any use for dollars, why should they sell their products for dollars in the first place?

Fourth, I have stayed away from discussing the role of monetary and fiscal policies. However, they would have their important roles to play—in the current environment of increasing demand for products, increasing trade, increasing standards of living, and the existence of excess capacity.

All the same, it is painfully obvious that America's trading partners continue to make inroads into the industries that once were American (or west European) domains. China, for example, is building large luxury yachts for foreign markets, a product that has no market in Mainland China at this time (Bradsher 2004). India provides advanced medical and surgical services—such as, heart surgery, bone marrow transplant, liver transplant, and orthopedic surgery—for a fraction of what they would cost in the United States (Engardio 2006, Raman and Soren 2004). Mexico City, Mexico manufactured about 2000 concrete panels needed for the façade of the 87,000 square-foot of Salt Lake City's new public library. They were then transported on flatbed trucks to the library location, 2,350 miles north, where they were assembled (Millman 2004).

“China overtook the United States in 2004 to become the world's leading exporter of information and communications technology (ICT) goods such as mobile phones, laptop computers and digital cameras. It exported USD 180 billion worth of ICT goods in 2004, compared with U.S. exports in the same category valued at USD 149 billion. In 2003, the U.S. led with exports of ICT goods worth USD 137 billion, followed by China with USD 123 billion (OECD, 2006).

Not only the United States, this entire world is in a dire need for the next industrial revolution. The bpe approach can very well act as the modern day agent for this gigantic change—just as James Watt's steam engine did for the first industrial revolution. It is high time to analyze, evaluate, and implement this model. It is high time for national determination and leadership to do so.

TABLE 1
U.S. INTERNATIONAL TRANSACTIONS
(BILLIONS OF DOLLARS)

Year	Balance on Current Account (billions of \$) ¹	Est. of New Jobs using the BPE Model (millions)
1996	125	1.25
1997	141	1.41
1998	214	2.14
1999	300	3.00
2000	416	4.16
2001	389	3.89
2002	475	4.75
2003	520	5.20
2004	668	6.68
2005	726	7.26

Notes:

1. The new job estimates are based on the requirements and assumptions made in the Immigration and Naturalization Act (\$1 million, 10 full time jobs).
2. It is assumed that the deficit in a given year is wiped out in the same year.
3. The important role of time lag has not been considered in these estimates. It is, however, recognized 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 bpe model in any significant manner

¹ U.S. Department of Commerce, International Economic Accounts, December 2005, February 2006.

REFERENCES

- Ansoff, Igor H. 1988. *The new corporate strategy*, New York: John Wiley & Sons.
- Arndt, Michael and Dean Foust 2006. The future of outsourcing, *Business Week*, January 30, 2006:50-58.
- Asia Pacific Foundation of Canada. 2004. Beijing's emerging markets strategy scores a victory in Latin America, *Asia Pacific Bulletin* 185, November 19, 2004.
- Belson, Ken. 2004. Flip side of outsourcing debate: Free trade is not the one-way street that critics make it out to be, *News India Times*, April 23, 2004:28.
- Bernstam, Michael S., and Alvin Rabushka. 2001. It's the dollar. *Hoover Institution Public Policy Inquiry*, January 30, 2001.
- Bhandari, Narendra C. 2005b. India: A crisis of identity, a model for transition. *Academy of International Business, Southeast Chapter, Proceedings* (November):37-42.
- Bhandari, Narendra C. 2005a. Exporting America, importing jobs. 2005 NEBAA International Conference 23 (May):16-21.
- Bhandari, Narendra C. 2004c. The American jobs, the American dollars. *Academy of International Business - North East, USA, Conference Proceedings* (October):23-26.
- Bhandari, Narendra C. 2004b. Balance of payment equilibrium model for more American jobs, and more world prosperity. Part One. *Global Business Development Institute, 2004 International Conference Proceedings, Cancun, Mexico* (June):37-40.
- Bhandari, Narendra C. 2004a. Balance of payment equilibrium model for more American jobs and more world prosperity. Part Two. The Globalization and Sustainable Development 2004 NEBAA International Conference (May):45-49.
- Bhandari, Narendra C. (1982), "Flexible budgeting can save small businesses," *Management Review*, June 1982, pp. 45-52.
- Bradsher, Keith. 2004. The ultimate luxury items now made in China. *The New York Time*, July 13:A1.
- Broad, William J. 2005. Top advisory panel warns of an erosion of the U.S. edge in science. *The New York Times*, October 13:22, Section A.
- Broad, William J. 2004. U.S. is losing its dominance in the sciences. *The New York Time*, May 3:A1.
- Byrne, John A. 1998. "How Jack Welch Runs GE," *BusinessWeek*, June 8.

Chamberlin, Edward Hastings 1950. *The theory of monopolistic competition, a re-orientation of the theory of value*. (Cambridge: Harvard University Press).

Clark, Nicola.2004. The struggle to get Europeans to do their duty and spend. *The New York Times*, July 23:W1.

CNN, 2006. The Situation Room with Wolf Blitzer, March 26.

Crutsinger, Martin.2006. Average American family income declines,” *Associated Press*, February 23.

Dewey, Donald.1969. *The theory of imperfect competition*. New York:Columbia University Press.

Donahue, Thomas J. 2004. Don’t cut NASA’s budget. Op-Ed, *The Washington Times*, September 9..

Drucker, Peter F. 2001. *The essential Drucker*. (New York: Harper Business).

Drucker, Peter F. 1995. *Managing in a time of great change*. (CITY?:Truman Talley Books/Dutton).

Drucker, Peter F. 1985. *Harvard Business Review on Management1: Classic Advice on Aspects of Organizational Life*. (New York: Perennial Library, Harper & Row Publishers).

Drucker, Peter F. 1954. *The practice of management*. (New York: Harper & Row, Publishers).

Dunham, Richard S. 2006. The struggle to sell the economy’s sizzle.*Business Week*, January 23.

Economic Policy Institute. 2006. Oil prices, Chinese imports drive trade deficit to new record. February 2.

Economic Policy Institute. Insourcing myths: Jobs and insourcing.
(http://www.epinet.org/content.cfm/webfeatures_snapshots_04062004)

Economic Policy Institute. 2006.,Real compensation down, as wage squeeze continues, January 31..

Economics. 2004. The great hollowing-out myth, February 21.

Engardio, Pete. 2006. Business prophet, how C.K. Prahalad is changing the way CEOs think. *Business Week*, January 23:70.

Evans, Donald L. 2001., Trade is ultimately about freedom. *Export America*, September:4-5.

Friedman, Thomas L. 2004. What goes around, comes around and benefits Americans. *The New York Times*, February 26:A27.

Gaffney, Timothy R. Path to the moon went through Ohio. *Dayton Daily News*.
<http://www.daytondailynews.com/business/content/business/daily/0115crawler.html>

Hamel, Gary, and C. K. Prahalad. 1994. *Competing for the future*.(Cambridge: Harvard Business School Press).

Hilsenrath, Jon E. 2004. Behind outsourcing debate: Surprisingly few hard numbers. *The Wall Street Journal*, April 12:A1+.

? Should this be alone or included with Times.<http://www.census.gov/foreign-trade/statistics/country/index/html>

International Monetary Fund. DATE? *International Financial Statistics Year Book*. Economic Division, Department of Commerce.

Kennedy, John F. 1961. *Why England Slept*, Wilfred Funk, Inc, New York.

Kristoff, Nicholas D. 2006. They're rounding the first turn! And the favorite is.... a contest of titans: India vs. China. *The New York Times*, January 17:A39.

Landau, Saul. 2005. Chinese influence on the rise in Latin America. *Global Policy Forum*, (June). (<http://www.globalpolicy.org/empire/economy/2005/06latamchina.htm>)

Leonidou, Leonidas C., 2004. An analysis of the barriers hindering small business export development. *Journal of Small Business Management* 24(3):279-302.

Lohr, Steve. 2006. Outsourcing is climbing skills ladder. *The New York Times*, February 16:C1, C17.

Marshall, Alfred. 1949. *Pure theory (foreign trade – domestic values, third impression*. (London: The London School of Economics and Political Science, University of London).

Marshall, Alfred. 1961. *Principles of economic*.,9th ed. (CITY?:The Macmillan and Co.).

McClelland, David C. 1976. *The achieving society*. (New York: Irvington Publishers, Inc.).

Millman, Joel. 2004. Blueprint for outsourcing. *The Wall Street Journal*, March 3:B1.

Raman, Papri Sri, and Florina Soren, 2004. Kidney transplant in U.S. costs \$75-80,000 and in India it costs \$7-8,000. *Indian American Center for Political Awareness*.

Norris, Floyd. 2005. Ú.S. tech exports slide, but trash sales are up. *The New York Times*, January 14:C1.

Noon, Chris. 2006. Buffett sounds warning on U.S. trade deficit—again. *Forbes.com*, 01.18.06:1.

OECD. 2006. China overtakes U.S. as world's leading exporter of information technology goods. *Organisation for Economic Co-operation and Development*, December 12. <http://www.oecd.org/document>

Porter, Michael E. 1996. What is strategy? *Harvard Business Review* 74(6) November/December:61-78.

Porter, M. 1990. *The competitive advantage of nations*. New York: The Free Press.

Porter, Michael E. 1988. *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press.

Prahalad, C. K., and Gary Hamel. 1990. The core competence of the corporation. *Cambridge: Harvard Business Review* May-June:79-91.

Reddin, William J. 1971. *Effective management by objectives*. New York: McGraw-Hill Book Company.

Reddin, William J. 1970. *Managerial effectiveness*. New York: McGraw-Hill Book Company.

Rockwell, Mark. 2004. Agency plays overseas matchmaker. *Wireless Week*, October 1:18.

Schroeder, Michael. 2005. U.S. presses EU customs case. *The Wall Street Journal*, January 14:A2.

Schumpeter, Joseph A. 1950. *Capitalism, Socialism, and Democracy*, 3rd ed. New York:Harper & Row, Publishers, Inc.

Schumpeter, Joseph A. 1939. *Business cycles, a theoretical, historical, and statistical analysis of the Capitalist process*, 1st ed., New York and London: McGraw Hill Book Company, Inc.

Schuster, Camille, and William Lundstrom. 2002. Public-private partnerships in international trade: A lobbying effort from passive to aggressive in the USA? *Journal of Public Affairs* 2(3):125-135.

The Economist. 1989. Poor man's burden. September 23:3-56.

Time Board of Economists. 2004. Think globally, act locally. *Time Insider Business*. November, A20.

U.S. Department of Commerce, Bureau of Economic Analysis. 2005. U.S. International Transactions Accounts Data. Released December 16. *Statistical Abstracts of the United States*

U.S. Census Bureau, Current Population Survey, 2002, 2003, and 2004 Annual Social and Economic Supplements.

University of Washington. Office of Research. 1996. Learning to take the heat: Insulation for the space shuttle. *Pathbreakers*.

Wessel, David. 2004. The future of jobs: New ones arise, wage gap widens. *The Wall Street Journal*, April 2:A1+.