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Table of Contents

AN ECONOMETRIC STUDY OF THE EFFECT OF REMITTANCES ON INFLATION IN INDIA 1
Deergha Raj Adhikari, University of Louisiana at Lafayette
Kishor Kumar Guru-Gharana, Texas A&M University-Commerce

TRADE EQUILIBRIUM FOR JOBS VERSUS SIMPSON BOWLES PLAN 7
Narendra C. Bhandari, Pace University

PERFORMANCE AND INCOME ACROSS COUNTRIES: STUDY AMONG ACCOUNTANTS 19
Shawn M. Carraher, University of Cambridge, Oxford University, Plymouth University

LOVE THEM OR HATE THEM: CONTRASTING EMOTIONS IN FOREIGN PRODUCT PURCHASE ARE MORE SIMILAR THAN NOT 23
Charles W. Richardson, Jr., Clark Atlanta University
Kendra Harris, North Carolina Central University

AN ECONOMETRIC STUDY OF THE EFFECT OF REMITTANCES ON INFLATION IN INDIA

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ABSTRACT

The prevalent literature on remittances so far mostly focuses on either the use of remittances in or their impact on capital formation and economic (GDP) growth of the recipient countries. In contrast, this study attempts to evaluate the impact of remittances on the domestic price level based on the data for of India. Using a system of a money demand function and a money supply function we derive an inflation rate function as a function of remittance rate, GDP rate, and interest rate change. Since all the variables involved in the model are found to be stationary, we estimate the model on Indian data using the ordinary least squares method. The estimation results suggest that the Indian workers' remittances from foreign countries do increase the domestic price level but the price effect is insignificant. We conclude that, although large compared to other developing countries, the relative size of remittance for India is not large enough to increase the foreign component of the money supply and thereby cause a sizable increase in the nation's money supply and bring about a significant rise in the domestic price level.

INTRODUCTION

Remittances constitute an important portion of foreign currency flow across the borders involving approximately one in six of the world's population. Remittances to developing countries surged to $93 billion in 2003 a growth of over 200 per cent from 1990. According to a recent World Bank estimates more than 70 percent of this global movement went to developing countries. In 2006, the World Bank reported that remittances surged to approximately $206 billion. These growing flows of remittances have led analysts to conclude that the growth of remittances has exceeded private capital flows and official development assistance to developing countries. Among the regional recipients, Europe and Central Asia tops the list followed by East Asia and Pacific and South Asia (Table 1). Among individual countries, India tops the list of recipients followed by China and Mexico (Table 2).

Table 1: Regional Distribution of Remittances, 2009 (In billions of dollars)

Region	1990	1995	2001	2002	2003	2009
South Asia	5.6	10	13.1	16.9	18.2	75.1
East Asia and Pacific	3	9.9	13.7	17	17.6	97.1
Europe & Central Asia	3.2	5.6	10.2	10.3	10.4	128.4
Latin America & Caribbean	5.7	12.9	22.9	26.8	29.6	56.6
Middle East & N. Africa	11.4	10	13.2	13	13	35.0
Sub-Saharan Africa	1.5	2.7	3.9	4.1	4.1	20.8

Source: IMF, "Global Monitoring Report 2004" and World Bank, "World Development Indicators, 2011.

Table 2: Largest Recipients of Remittances, 2009	
Country	**Remittances (Billions of dollars)**
India	49.5
China	48.7
Mexico	22.0
Philippines	19.8
France	15.6
Germany	10.9
Bangladesh	10.5
Belgium	10.4
Spain	9.9
Nigeria	9.6
Source: World Bank, "World Development Indicators, 2011	

According to the Global Monitoring Report 2004 published by IMF, the main source of remittance continues to be the US where the rise in remittances coincided with the economic boom of the 1990s and the liberalization of the temporary migration (especially in the technology sector). Conservative estimates put the number of people receiving some form of economic benefit from remittances at one billion – almost one-sixth of the planet's population. World Bank estimates suggest that for every 10 percent increase in remittances to developing countries, the number of people living in poverty is reduced by 1.2 percent. A study by Taylor and Adelman (1996) found that for every dollar received in remittances, Mexico's gross national product increases by $2.69 for urban households and $3.17 for rural households. Immigrants in the United States sent $28.5 billion to Latin America and the Caribbean in 2003. The top three countries in Latin America to receive remittances from U.S. in 2001 were Mexico, El Salvador, and the Dominican Republic. A significant study conducted by the Inter-American Development Bank (IDB) in 2004 reveals that the Latin American-born adults who resided in the United States sent home approximately $30 billion during 2004. These remittances made up a corresponding 50-80% of the household incomes for the recipients. A general impression about remittance is that it is a phenomenon affecting poor countries. However, the data suggests that of the 10 largest recipients of remittances in the last decade (1992 – 2001), seven were OECD countries and two of the top five recipients were G-5 countries (Table 3). While the magnitude of remittances has been increasing and will undoubtedly remain significant for a long period of time in foreseeable future, the benefit of remittances to both origin and destination countries is not without controversy.

Several studies have found that remittances do indeed help the recipient countries. For example, in 2000, the U.N. reported that remittances increased the GDPs of El Salvador, Jamaica, Jordan, and Nicaragua by 10%. According to the World Bank report, in 2004, remittances accounted for approximately 31%, 25%, and 12% of Tongans, Haitians, and Nicaraguans GDP, respectively. Remittances are said to be usually destined for relatively backward, rural regions that are most in need of development capital (Jones, 1998a:4). Jones (1998b) suggests that there is probably no other more "bottom-up" way of redistributing and enhancing welfare among population in developing countries than these remittances. Remittances appear to be a more effective instrument for income redistribution than large, bureaucratic development programs or development aid. Remittances are less subject to political barriers and controls compared to either product or other capital flows. Studies by Gammeltoft (2002), Keely and Tran (1989), Puri and Ritzema (1999), and Ratha(2003) claim that remittances have proved to be less volatile, less pro-cyclical, and therefore a more reliable source of income

than other capital flows to developing countries, such as Foreign Direct Investment. The surge in remittances has given rise to a kind of belief that migrant remittances may be proclaimed as the newest "development mantra" among institutions like the World Bank, governments, and development NGOs (Kapur, 2003; Ratha, 2003). Several studies have shown that remittances may also lead to increased economic activities and wealth (Taylor et al. 1996a, 1996b; De Haas, 2003).

Other studies have found the effect of remittances on the recipient countries either negative or not so promising. For example, Schiff (1994) and Kapur (2003) suggest that the direct benefits of remittances are selective and do not tend to flow to the poorest members of communities nor to the poorest countries. In fact, remittances represent only 1.3 per cent of total GDP of developing countries (Ratha, 2003). Skeldon (1997) has concluded that, although migration evidently emanates from the desire to improve one's livelihood, it is rarely the poorest that migrates. Rather than absolute poverty, a certain level of socio-economic development, combined with global inequality in development opportunities, seems to be the most important cause of migration. This argument can also explain why leading emigration countries (e.g. Mexico, Morocco, Turkey, Philippines) typically do not belong to the group of least developed countries. Hence, the relation between migration and development is neither direct nor inversely proportional.

Although the economic impact of remittances on the recipient countries is still being debated, there is a broad consensus that the demand for both skilled and unskilled migrant labor will persist (Harris, 2002; Martin, 2002) – even if labor participation increases rather drastically (Entzinger,2000). The studies on remittance so far mostly focus on either the use of remittances or their impact on capital formation and economic (GDP) growth of the recipient countries. Therefore, this study attempts to evaluate the impact of remittances on the domestic price level based on the case of India. Section 2 of this study will lay down the model, section 3 will present the methodology, section 4 will detail the empirical findings, and finally section 5 will summarize and conclude the study.

THE MODEL

The money demand function is given by:

$$M^D = a.y^b.p^c.e^{-di} \quad (1)$$

where $\mathbf{M^D}$ is the demand for nominal money balances, $\boldsymbol{y}$ is the real income, $\mathbf{i}$ is the real interest rate, and p is the price level.

The money supply function is given by:

$$M^S = f\,(D, FR, FNR) \quad (2)$$

where M^S is the supply of nominal money balances

$D =$ demand deposit

$FR =$ foreign currency reserves from remittances

$FNR =$ foreign currency reserves from other than remittances

If we let the mean effect of D and FNR be reflected by the intercept term, then we can re-specify the equation (2) as,

$$M^S = g\,(FR) = \alpha.FR^{\beta} \quad (3)$$

Equilibrium requires: $a.y^b.p^c.e^{-di} = \alpha.FR^{\beta}$ (4)

Taking log on both sides of (4) yields,

$$\text{Log } a + b.\log y + c.\log p - d\,i = \log\alpha + \beta\log FR \quad (5)$$

Taking total differential of (5) yields,

δ Log a + b δ log y + c. δ log p – d δ i = δ log $\alpha + \beta\, \delta \log \mathrm{FR}$ (6)

Since **a** and **α** are constant, the above equation can be rewritten as,

$$b\frac{\delta y}{y} + c\frac{\delta p}{p} - d\delta i = \beta\frac{\delta FR}{FR} \quad (7)$$

Solving for $\frac{\delta p}{p}$ yields,

$$\frac{\delta p}{p} = \frac{\beta}{c}.\frac{\delta FR}{FR} - \frac{b}{c}.\frac{\delta y}{y} + \frac{d}{c}.\delta i \quad (8)$$

$$\frac{\delta p}{p} = \theta.\frac{\delta FR}{FR} - \gamma.\frac{\delta y}{y} + \mu.\delta i \quad (9)$$

Where, $\theta = \frac{\beta}{c}, \gamma = \frac{b}{c}, and\ \mu = \frac{d}{c}$

With time subscript, equation (8) can be rewritten as,

$$\frac{p_t - p_{t-1}}{p_{t-1}} = \theta.\frac{FR_t - FR_{t-1}}{FR_{t-1}} - \gamma.\frac{y_t - y_{t-1}}{y_{t-1}} + \mu.(i_t - i_{t-1}) \quad (10)$$

The above equation can be rewritten as,

$$\pi_t = \theta \mathrm{FR}_t^* - \gamma y_t^* + \mu i_t^* \quad (11)$$

Where, inflation rate (INFL_RATE): $\pi_t = \frac{p_t - p_{t-1}}{p_{t-1}}$,

$Remittance\ Rate\ (REM_RATE): FR_t^* = \frac{FR_t - FR_{t-1}}{FR_{t-1}}$,

$GDP\ Rate\ (GDP_RATE): y_t^* = \frac{y_t - y_{t-1}}{y_{t-1}}$,

and $Interest\ Rate\ Change\ (INT_CHNAGE): i_t^* = i_t - i_{t-1}$

DATA AND METHODOLOGY

Our model studies the case of India over the years 1978-2009. The data on all the variables in this study, such as, the price level (p), the foreign remittance (FR), the GDP at current prices, the real interest rate (i), and the GDP deflator was collected from the World Bank publication, "World Development Indicators, 2011." Then a time series on real income (y) was generated using the following formula:

$$y = \frac{GDP\ at\ current\ prices}{GDP\ deflator\ for\ the\ current\ year} x100$$

We first conduct the unit root test on all the variables in the model to see if are stationary. If they are found to be stationary, then we will estimate equation (11) to see if the coefficient associated with the variable FR*(θ) is positive and statistically significant. If θ is found to be positive and significant, then we will conclude that the foreign currency remittances (FR*) does cause an increase in the rate of inflation.

EMPIRICAL FINDINGS

We have presented the estimation results (E-views outputs) in the Appendices. Before estimating equation (11), we tested the time series on the dependent variable and on all the independent variables in the equation for the presence of a unit root. The test results presented in Appendix B – E shows that the critical t-statistics corresponding to Augmented Dickey-Fuller

test on all the variables are smaller than their corresponding t-statistics at conventional 5 percent significance level, rejecting thereby the null hypothesis of the presence of a unit root. This finding allowed us to estimate the equation using the ordinary least square. The OLS estimates of equation (11) are presented below:

INFL_RATE = 7.746940 + 0.015600 REM_RATE – 0.202906 GDP_RATE + 0.018053 INT_CHANGE
(13.12389) (0.708527) (-3.539885) (0.133776)

R^2 = 0.312311 F-statistic = 4.238701 Prob (F-statistic) = 0.013699

The figures in the parentheses are t-statistics associated with the estimated coefficients. Although the R^2 is not so high, but the p-value corresponding to the F-statistic suggests that the Coefficient of Determination is significant and that the inferences can be drawn based on the estimates. All the coefficients have expected sign. For example, an increase (decrease) in the remittance rate or the real interest rate does increase (decrease) the inflation rate. In contrast, a growth (decline) in the GDP rate lowers (raises) the inflation rate. However, the effect of the remittance rate or the interest rate change on the inflation rate is not significant statistically, whereas the effect of the GDP rate on the inflation rate is statistically significant. This finding implies that the foreign remittance by Indian workers working abroad does increase the domestic inflation rate, but the increase is not significant. The reason for this finding could be a small contribution of Indian workers' remittances in India's GDP. The data from 2009 show that the workers' remittances are only 3.6 percent of the country's GDP. That means the remittance amount is not big enough in relation to the national income to increase the foreign component of the money supply and thereby cause a sizable increase in the nation's money supply and eventually a significant rise in the domestic price level.

SUMMARY AND CONCLUSION

We study the impact of Indian workers' remittances from foreign countries on Indian price level. To accomplish this objective, we derive an inflation rate function from a money demand function (a function of real GDP, price level, and the real interest rate) and the money supply function (a function of demand deposit, foreign currency reserves from remittances and foreign currency reserves from other sources). To ensure that our model produces valid inferences we test for the stationarity of all the variables involved in the model. Our finding indicates that the variables are stationary and that we can safely draw inferences based our model. Subsequently, we estimate our model (inflation rate as a function of the remittance rate, the GDP rate, and the change in the real interest rate) using the ordinary least square. We find that the coefficient associated with the remittance rate is although positive but insignificant. This leads us to conclude that the Indian workers' remittances from foreign countries do increase the domestic price level but the increase is insignificant. One of the reasons for this finding could be the relative contribution of Indian workers' remittances in India's GDP. The data from 2009 shows that the workers' remittances are only 3.6 percent of the country's GDP. That means the remittance amount is not big enough to increase the foreign component of the money supply and thereby bring about a sizable increase in the nation's money supply and eventually a significant rise in the domestic price level.

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TRADE EQUILIBRIUM FOR JOBS VERSUS SIMPSON BOWLES PLAN

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PURPOSE & CLARIFICATION

This paper has the following objectives: (a) To discuss my theory of trade equilibrium: Its definition, benefits, and administration (Part One), and (b) To explain its advantages over the plan presented by Simpson-Bowles commission (Part Two), and (c) To suggest that the United States begin discussing the merits of the theory of trade equilibrium and take steps to legislate it.

I have been writing about this topic for public policy—using mathematical-academic analysis for the last few years. "Part One" of the paper, updated in many important ways for this article, is based upon some of my previous writings and presentations. Its "Part Two" is its first time submission to an academic venue.

PART ONE
TRADE EQUILIBRIUM: DEFINITION, BENEFITS

I define trade-equilibrium, an otherwise widely used term, as follows:

> **Trade Equilibrium is a situation when trading among different countries is such that the trading partners remain generally deficit-free from one another over a cycle of every 2-3 years. This theory 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.**
>
> **It is the responsibility of America's trading partners with trade surpluses to make sure to meet the requirements of the trade equilibrium as defined above.**

UNPLEASANT AND WORSENING AMERICAN ECONOMY

The following data presents a sample of how unpleasant and worsening America's current situation is in terms of its trade, jobs, and debts (Bureau of Labor Statistics, U.S.A.):

a. **Debt:** 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.

b. **Trade deficit**: During the 2001-2010 decade, the total U.S trade deficit amounted to $6.486 trillion—or an annual average trade deficit of $648,682 billion.

c. **Jobs exported**: During the 2001-2010 decade, the U.S. exported a total of 19.51million jobs, or an average of 1.95 million jobs a year. In other words, the U.S. lost 3 jobs per $1 million of trade deficit.

d. **Employment**: In 2001, 132 million non-farm people were employed. In 2010, only 130 million non-farm people were employed.

e. **Unemployment**: In 2001, 6.8 million people were unemployed (16 years and over, unadjusted). In 2010, the number of unemployed people sky-rocketed to 14.8 million (16 years and over, unadjusted).

f. **Rate of employment**: In Dec. 2001, the ratio percent or rate of employment population was 62.9 (16 years and over). In Dec. 2010, the ratio percent or rate of employment population declined to 58.3 (16 years and over).

g. **Rate of unemployment**: In December 2001, the U.S. unemployment rate was 5.7%. In December 2010, the U.S. unemployment rate went up to 9.4%. (It is currently less than 8% primarily because millions of employable people have left looking for jobs.)

BENEFITS OF THEORY OF TRADE EQUILIBRIUM

Once the theory of trade equilibrium has been legislated, it would offer the following benefits per year (or for the time period as noted):

No More Trade Deficits & Protecting Current Jobs (simple math)

a. The new annual U.S. trade deficit—considering the world as a whole—would reduce to zero. In addition, no individual country which already has accumulated a large dollars surplus would be permitted to create new trade deficit for America.

b. There would be no net export of American jobs. Accordingly, the U.S.—which has been exporting an average of 1.95 million jobs every year over the last ten years—would save them from being exported.

Eliminating Past Trade Deficits, Creating Exports Surplus, and Creating New Jobs (simple math)

a. The world as a whole (starting with the countries which already have accumulated large trade surplus against America) would start to reduce their hoard to zero over a ten-year period by purchasing American (products goods and services).

b. Subject to the American national security and other laws, the dollar surplus countries can buy any American products they like to. Likewise, subject to the requirements of Trade Equilibrium, they can repatriate any time their principal and earnings to their home country.

c. This would increase American exports and, for the first time, create for it a net trade surplus of $460 billion a year (10% of $4.6 trillion of foreign debt, excluding interest).

d. The U.S., due to its annual incremental exports of $460 billion, would create 1.38 million net new jobs per year for ten years.

e. These changes would increase individual income, reduce poverty, enhance stockholders' wealth, raise governmental tax revenues, and trim tax rates.

New Investments, Increasing Profits, Growing Stockholders' wealth (simple math)

a. An expected net trade surplus of $460 billion a year (see above) would go hand in hand with an equal amount of net new investments in the American economy. And this stimulus money is not coming from the governmental printing press. Instead, it is coming out of the dollar surplus countries' banks.

b. This staggering amount of new annual investments would increase business expansion business profits, and stockholders' wealth (401K's, IRA's, etc.).

c. An explosive growth in jobs would increase individual income, reduce poverty, and bring about many positive social and cultural changes.

d. It would increase governmental tax revenues and trim tax rates.

Higher American Stature and Growing International Peace (simple logic)

a. Trade equilibrium would help America regain its national confidence and international stature.

b. It would help enhance peace and democracy around the world.

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 trade between countries will give birth to the next economic revolution—effects of which would be many times more than that of James Watt's steam engine. International economic growth so created would provide jobs to people all over the world. This in turn would promote international peace and democracy. And it would be a win-win, positive-sum phenomenon, not a zero-sum game. U.S. must consider legislating Trade Equilibrium.

INITIATING LEGISLATING TRADE EQUILIBRIUM

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.

It would 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[1]), 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.

THEORY OF TRADE EQUILIBRIUM WOULD BENEFIT TRADE SURPLUS COUNTRIES

An Overall Purpose

The U.S. should aim to establish and maintain an overall trade equilibrium with the world as a whole. It may have small amounts of trade deficits or surpluses with some individual countries temporarily. However, it should not have significant amounts of trade deficits or surpluses with any country for more than 2-3 years.

The foreign countries that are holding surplus dollars must use them (see the definition above) to buy products from America. They can of course use these dollars to buy products from countries other than America. In that case these other countries would have the surplus dollars and, therefore, other things being equal, must use them to buy products from America.

Using these surplus dollars to buy American products would help these countries to improve their infrastructure and economy. The rate of return on such investments would be much higher than what they currently earn by investing them in the U.S. bonds. They would also save themselves from sitting on dollars which are declining in value. And because they would be dipping into their surplus dollars account for those purchases, it would not create net trade deficits for them.

American Trade Deficit With China

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.

The U.S. at the same time must spread its future imports around to diversify.

PART TWO

BHANDARI'S TRADE EQUILIBRIUM
VS.
SIMPSON BOWLES PLAN[2]

In this part of the paper, I am arguing that my model of Trade Equilibrium presents a much better approach to America's fiscal health than that is possible using the Simpson Bowles plan.

UNDERSTANDING AMERICAN 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). 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.

Technically speaking, the public debt is the amount that the federal government owes to the American public. Since the federal government has taxing power, the public debt represents the amount that the American people owe to each other. From a socio-economic point of view, however, it may suggest existence of unemployment, poverty, and gulf between the haves and the have-nots.

Often, the foreign debt represents an excess of American imports over American exports. However, it may also include items such as follows: (a) the funds the Americans send overseas to their families and others, (b) the amount the Americans spend when travelling abroad, and (c) the amount the America spends on fighting terrorism and wars overseas. An increasing foreign trade debt is a primary reason of increasing American unemployment.

UNDERSTANDING AMERICAN BUDGET DEFICIT

The American budget deficit/surplus represents the difference between the revenues and expenses of the American government during a fiscal year (October 1 to September 30). The budget deficits are often financed by taking loans from the public. Budget surpluses, if any, are carried forward and/or used to pay off the existing debt.

TRADE EQUILIBRIUM WOULD ELIMINATE FOREIGN DEBT

Let us assume that American lawmakers pass the law of Trade Equilibrium making it effective January 1, 2013. This act would then have the following consequences (data related to interest and compounding have been ignored).

1. America, which currently averages an annual trade deficit of $649 billion a year, would no longer face this problem!

2. No additional export of 1.95 million U.S. jobs a year—a result of the average annual trade deficit cited above!

3. No additional tax expenditures on the jobs lost!

4. Net new purchases of $460 billion (10% of $4.6 trillion) worth of American goods and services by foreigners a year for ten years! Or investment in America!

5. Elimination of American foreign debt in ten years (2022)!

6. Creation of U.S. trade surplus beginning 2023!

TRADE EQUILIBRIUM WOULD REDUCE/ELIMINATE PUBLIC DEBT

Using the research by Cohen, Freiling, and Robinson's (2012)[3] research findings as a "broad" guideline, the $4.6 trillion dollars coming back home (new investment) would generate new tax revenues as follows.

1. About $2.875 trillion in new federal tax revenues over a ten year period, or about $287.5 billion a year!

2. About $1.794 trillion in new state and local tax revenues over a ten year period, or about $179.4 billion a year!

3. About a total of $4.669 trillion in new total tax revenues over a ten year period, or about $466.9 billion a year!

These tax revenues would take place without making any changes in the current tax code.

Under the Trade Equilibrium Act, it would be the responsibility of the foreign countries to decide how to spend these $460 billion dollars in America. Subject to the American laws, they can buy whatever American goods and services they want to.

SIMPSON-BOWLES COMMISSION

The National Commission on Fiscal Responsibility and Reform (NCFRR), popularly known as Bowles-Simpson or Simpson-Bowles Commission, was established in 2010 by President Barack Obama to identify "…policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run." Its December 1, 2010 report failed to receive Congressional approval for a variety of reasons. However, it continues to get wide attention. Its authors, Erskine Bowles and Alan Simpson, continue to promote their report to prestigious American audiences.

THEORY OF TRADE EQUILIBRIUM VS. THE SIMPSON BOWLES' PLAN

The Simpson-Bowles Plan consisted of six major parts projecting a total savings of $4.123 trillion dollars over a nine year period (2012-2020). An itemized comparison of these

savings with that of those possible from the Theory of Trade Equilibrium that I am proposing for enactment, is presented below:

1 Spending Cuts

Simpson-Bowles Plan: $1,661 billion of discretionary spending cuts by putting in place discretionary spending caps into law lower than what is projected to be spent

Bhandari's Trade Equilibrium: As defined, spending cuts is not a part of my theory. However, any and all unnecessary expenses should be eliminated. When done, it would only enhance the value of this theory.

2 Additional Revenues

Simpson-Bowles Plan: $995 billion in additional revenue with $785 billion in new revenues from tax reform by lowering income and corporate tax rates and broadening the base by eliminating tax expenditures. An additional $210 billion in revenue is also raised in other revenue by switching to the Chained-CPI and an increase in the federal gasoline tax

Bhandari's Trade Equilibrium: As defined, tax reform is not a part of my theory. However, any and all necessary tax reforms must be pursued. When done, it would only enhance the value of this theory.

3. Healthcare Savings

Simpson-Bowles Plan: $341 billion in federal health care savings by reforming the Sustainable Growth Rate for Medicare, repeals the CLASS Act (which has already happened), increase Medicare cost sharing, reform health-care tort, change provider payments, increase drug rebates and establishes a long-term budget for total federal health-care spending after 2020 to GDP + 1 percent.

Bhandari's Trade Equilibrium: As defined, healthcare reform is not a part of my theory. However, any and all necessary healthcare reforms must be pursued. When done, it would only enhance the value of this theory.

4. Other Mandatory Savings

Simpson-Bowles Plan: $215 billion in other mandatory savings by moving to the Chained CPI for all inflation-indexed programs, reform the military and civil service retirement system, reduce farm subsidies, reduce student loans and various other reforms.

Bhandari's Trade Equilibrium: As defined, mandatory savings is not a part of my theory. However, any and all necessary savings must be pursued. When done, it would only enhance the value of this theory.

5. Social Security Savings

Simpson-Bowles Plan: $238 billion in Social Security reform, to be used to ensure the program is sustainably solvent in the infinite horizon by slowing benefit growth for high and medium-income workers, increase the early and normal retirement age to 68 by 2050 and 69 by 2075 by indexing it to longevity, index cost of living adjustments to the Chained-CPI, include newly hired state and local workers after 2020, increase the payroll tax cap to cover 90 percent of wages by 2050 and creates a new minimum and old-age benefit.

Bhandari's Trade Equilibrium: As defined, social security savings is not a part of my theory. However, any and all necessary savings must be pursued. When done, it would only enhance the value of this theory.

6. Budgets Process Reforms

Simpson-Bowles Plan: Budget Process Reforms by creating discretionary spending caps and caps total federal revenue at 20 percent of GDP.
An additional $673 billion is saved due to lower projected spending interest payments as a result from lower deficits.

Bhandari's Trade Equilibrium: As defined, budget process reforms is not a part of my theory. However, any and all necessary savings must be pursued. When done, it would only enhance the value of this theory.

Trade Equilibrium Effects Over Ten & More Years

Simpson-Bowles Plan: A total of $4.123 trillion in savings is projected in this plan over a nine year period, or $458 billion dollars a year, or $4.581 trillion for 10 years. It projects to eliminate federal deficit by 2035 (about 22-23 years from now).

Bhandari's Trade Equilibrium: As defined, and as noted above, my theory would generate tax revenues as follows:

1. About $2.875 trillion in new federal tax revenues over a ten year period, or about $287.5 billion a year!

2. About $1.794 trillion in new state and local tax revenues over a ten year period, or about $179.4 billion a year!

3. About a total of $4.669 trillion in new total tax revenues over a ten year period, or about $466.9 billion a year!

Trade Equilibrium With A Major Distinction

Simpson-Bowles Plan: Its 65 page report does not deal with its effect on American employment in any direct way—probably because it wasn't its goal.

Bhandari's Trade Equilibrium: As defined, saving existing jobs and creating net new jobs is a significant outcome of my theory.

TRADE EQUILIBRIUM, A PHENOMENON

Let me reiterate one of my central arguments:

> 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 trade between countries will give birth to the next economic revolution—effects of which would be many times more than that of James Watt's steam engine. International economic growth so created would provide jobs to people all over the world. This in turn would promote international peace and democracy. And it would be a win-win, positive-sum phenomenon, not a zero-sum game. U.S. must consider legislating Trade Equilibrium.

Change is seldom simple; suggestions for making major changes are often misjudged. My recommendation to enact "Trade Equilibrium" will certainly generate a multitude of comments, questions, and criticisms. Let us get started.

SUGGESTIONS FOR ADDITIONAL RESEARCH

We need to do more research in the areas such as follows:

1. Effect of an elimination of new U.S. trade deficit of $649 billion a year on the U.S. debt?

2. Effect of an elimination of additional export of 1.95 million U.S. jobs? Among other variables, it would reduce some tax expenditure (unemployment benefits, etc.).

3. Distribution of dollars coming back home ($460 billion a year--10% of $4.6 trillion of foreign debt—among various parts of American economy).

4. Effect of U.S. trade surplus beginning 2023 on its economy!

5. Effect on the economy of a dollar surplus country as it spends those dollars in buying American goods and services! Effect of using billions of dollars on improving its infrastructure, such as transportation, water, and food!

6. What is the value of national pride, national security, national economic independence that would arise following the implementation of the theory of Trade Equilibrium?

ENDNOTES

1 Uruguay Round Agreement, World Trade Organization, "Marrakesh Agreement Establishing the World Trade Organization," Copied from its web, January 20, 2013.

2 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.

3 Cohen, Isabelle, Thomas Freiling, and Eric Robinson (2012). "Economic Impact and Financing of Infrastructure Spending," William & Mary.

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4. Wikipedia—and by implication the sources it used itself.
5. Others as noted.

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PERFORMANCE AND INCOME ACROSS COUNTRIES: A STUDY AMONG ACCOUNTANTS

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ABSTRACT

In the current paper I examine the relationship between performance and income among 220 accountants across Western Europe. Four measures of performance were used but when not controlling for wage differentials there were not any significant relationships at the .1 level and the entire regression equation was not significant. When controlling for wage differences the regression equation was significant at the .008 level with goal oriented performance being the performance variable most closely associated with income. Suggestions for future research are provided.

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LOVE THEM OR HATE THEM: CONTRASTING EMOTIONS IN FOREIGN PRODUCT PURCHASE ARE MORE SIMILAR THAN NOT

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ABSTRACT

Initial research on the construct of animosity presented evidence that animosity is a separate and distinct construct from ethnocentrism. Some additional research has supported the notion that international animosity and consumer ethnocentrism are distinct constructs that play different roles depending on the set of products available to consumers. Other research, however, has yielded findings that are not as consistent. As such then, it may be the case that these constructs are more closely linked; specifically, both having significant impact on consumer's judgments of product quality. This research extends the existing literature by examining potential revisions to the Animosity Model of Foreign Product Purchase, and investigates the impact of animosity on product judgments. American consumers were surveyed regarding their attitudes towards Japan and Japanese products. Results indicate that animosity does indeed impact product judgments, implying that the constructs of ethnocentrism and animosity represent greater consistency of consumer attitudes than previously described.