












Annual Income Effects of Manufacturing Outsourcing Event

Machinery Plant with 300 Shop-Floor Workers Moved Offshore

Modeled on Rexnord bearing plant that moved to Mexico (time.com/4783921/the-jobs-that-werent-saved)

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| | United States | | Developing Country | |
|--|--|---|---|---|
| Worker Compensation Including Benefits | (\$12,000,000) =300 * (\$45K gen - \$85K mfg) |  | \$750,000 =300 * (\$10K mfg - \$7.5K gen) |  |
| Wheels-Turning Capital Expenditure/Consumption | (\$7,000,000) Left with hole in the ground |  | \$7,000,000 Transplanted capital consumption |  |
| Profit Increase and/or Consumer Cost Reduction | \$22,500,000 = 300 * (\$85K mfg – \$10K mfg) Other costs assumed to carry over |  | | |
| Free-Trade Gain (Unbalanced) | \$3,500,000 |  | \$7,750,000 |  |
| Fair-Trade Adjustment (Govt -> Govt Payment) | \$2,125,000 |  | (\$2,125,000) |  |
| Fair-Trade Gain (Balanced) | \$5,625,000 |  | \$5,625,000 |  |

Notes

- Free trade is typically unbalanced in favor of developing countries
- Trade should be viewed as a cooperative (positive-sum) game
- Nations should bargain *on behalf of their citizens* to ensure fair allocation of total gain from trade
- According to Nobel laureates John Nash and Lloyd Shapley, the split should be 50-50 in a bilateral trade agreement
- Fair-trade adjustment via side payment from developing country should be annual and ongoing
- Side payment can provide Trade Adjustment Assistance to displaced US workers