Annual Income Effects of Manufacturing Outsourcing Event

Machinery Plant with 300 Shop-Floor Workers Moved Offshore

Bob Agnew (raagnew1@gmail.com, www.raagnew.com)

	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
- Fair-trade adjustment from developing country should be annual and ongoing. Could be structured as a tariff on total landed import cost.
- Fair-trade adjustment can provide support to displaced US workers