

The balance sheet on ‘America First’



By Jeffrey D. Sachs JANUARY 29, 2017

President Donald Trump believes an “America First” foreign policy would save Americans income and jobs and would help rebuild the country. Putting aside the moral and diplomatic dangers in Trump’s brazen assertion of American self-interest above global well-being, there is one economic truth in Trump’s ideas but several dangerous myths.

The truth lies in military affairs. The United States is overstretched militarily. By cutting back on vast overseas military spending and the relentless wars of regime change, the United States could save hundreds of billions of dollars per year, perhaps up to 2 percent of GDP per year in overall security spending, that could be re-routed toward investments in the United States. Whether Trump actually intends to cut back on military spending is an open question, as he has called for cutting America’s overseas commitments but also for a new military buildup.

We certainly can and should cut back on overseas military spending. America currently has military bases in around 70 countries, at an annual cost of around 1 percent of GDP and 5 percent of the federal budget. If we factor in America’s wars of regime change (most recently in Afghanistan, Iraq, Libya, and Syria), the overseas military costs rise by roughly another 1 percent of GDP. Finally, if we consider the costs and tensions with Russia arising from the American-led effort to push NATO eastward to Ukraine, the US military burdens and risks rise even more.

If Trump were to take the United States out of the Mideast wars and lower the tensions with Russia by ending the eastward drive of NATO, he would indeed save America important sums that could be reinvested at home. Yet if Trump takes those savings and puts them right back into a new arms race, as he has sometimes suggested, the economic gains would be squandered, and would leave America in even greater danger as other big powers join the arms race.

Trump's more dubious ideas about America First lie in other areas, notably trade and investment, migration, tax and aid policies. In each case, Trump has greatly exaggerated the gains that can be achieved through an America First policy and underplayed the enormous costs.

Trump's most provocative and misguided claims arise in regard to America's international trade and investment policies. He has repeatedly claimed that by getting tough with American firms moving overseas to China and Mexico he will restore American jobs and wealth at home. In this case, Trump has spotted a true phenomenon — offshoring of jobs — but grossly exaggerated its importance and shot at the wrong target.

American manufacturing companies have indeed moved jobs to China and Mexico in order to benefit from lower wages for the labor-intensive segments of the production process. A recent study shows that as of 2014 US multinational firms employed around 665,000 manufacturing workers in Mexico and 827,000 in China in overseas affiliates in which the US firms have majority ownership, or about 1.5 million workers in total. The Mexican production is directed toward the US market under NAFTA, while the Chinese production is both for the United States and the rest of the world.

Of course, 1.5 million is not a trivial number of workers, but it amounts to just 1 percent of the US labor force. And manufacturing jobs as a whole in the United States are just not that numerous anymore. In 1970 manufacturing jobs constituted 25 percent of the workforce. Today, they constitute just 8.4 percent. It's not that the manufacturing jobs went overseas. They mostly went the way of automation. Yesteryear's assembly workers are today's assembly-line robots. And

today's remaining manufacturing workers are tomorrow's artificial intelligence systems.

There is another fallacy. Reversing the offshoring would not create the same 1.5 million jobs inside the United States. US-based production is much more capital intensive than in China and Mexico because of the higher US wages. The 1.5 million workers in China and Mexico might translate into 750,000 workers inside the United States. This is just 0.5 percent of the US labor market. And even those supposed job gains overlook the much higher production costs that the US-based companies would incur when the jobs return, causing the US firms to lose international competitiveness and to cut back on other employment already in the United States, such as the R&D units that support overseas operations.

Of course, not all of the offshore production is ever returning to the United States. Some of the overseas operations have nothing to do with the US market. And even production for export to the US market is not so easy to cajole back home.

Suppose, for example, that Trump were to follow through on his threat of a "border tax" (or import duty) on goods exported to the United States by US companies operating in China and Mexico. In response, those companies would most likely divest their overseas operations and buy the same products from unaffiliated companies not subject to the border tax. Suppose that Trump were to put tariff on all products coming in from China and Mexico. He would then set off a gigantic trade war that would do great damage to the US and world economy.

What about the recent pronouncement by Ford Motor Company, for example, promising to invest \$700 million in Michigan rather than Mexico? The company declared that the move, portrayed as a response to Trump, would save 700 jobs, or roughly 1 job per \$1 million in investments. At that rate, Trump is not going to get very far for America's 152 million workers.

Instead of blaming China and Mexico for the very real problems facing America's workers, Trump should be aiming to tax the booming incomes of the capital owners (with stock markets now at record levels) in order to ease the economic burdens on the workers. Sadly, he seems intent on doing exactly the opposite:

giving even more tax breaks to corporate capital on the claim that corporate tax cuts will also bring manufacturing jobs back home.

Reportedly, Trump would like to slash the tax rate from 35 percent to 15 percent. The estimated revenue loss per year would be around 1 percent of GDP, and the tax savings would accrue overwhelmingly to the rich. The gain in manufacturing jobs would be small for the reasons already explained, but the revenue losses would be very large.

How would Trump propose to offset the loss of revenues? Partly he seems intent on running larger budget deficits, putting the burden on today's young people who will inherit a mountain of public debt. Yet he also appeals to America First by proposing to slash US spending on foreign aid and on the United Nations. Here lies the greatest myth of all. Cutting spending on aid and the UN would save very little in dollar terms but would cause a huge blow to America's global interests and national security, not to mention America's moral standing in the world.

Trump and his associates have repeatedly denigrated foreign aid and financial contributions to the United Nations as heavy and unfair burdens to the American people. These attitudes are steeped in prejudice and could not be more mistaken. There is an overwhelming case to increase rather than decrease our outlays in both cases.

Total US foreign aid is around \$31 billion per year, roughly 0.17 percent of national income. Thus, even if all foreign aid were eliminated, it would offset less than one-fifth of Trump's proposed corporate tax cut. But what does US foreign aid accomplish? Thanks to George W. Bush's leadership, for example, it saves millions of lives of HIV-infected people around the world. It saves hundreds of thousands of lives of young children who would otherwise die of malaria. It spares America the ravages of disease epidemics that would start abroad and then hit the U.S. shores. It feeds the hungry and threatened populations displaced by typhoons, floods, droughts, famines, and conflicts.

Could the Trump administration be so heartless as to have the American people turn our backs on America's long-standing and successful efforts to fight killer diseases, hunger, and extreme poverty?

If anything, the United States should be doing much more, in partnership with other countries. At very low cost the United States together with partner countries could help to end the HIV/AIDS epidemic. Building on Bush's innovative steps 15 years ago, and many new technologies, Trump could partner with other countries to prevent nearly all new infections of HIV. Similarly, building on the long-standing commitments of the United States and other countries, a modest increase of aid would ensure that every girl and boy in the poorest countries can stay in school until completing high school. In that way, impoverished kids would not end up as child soldiers or as unemployed youth who are easily radicalized. All of this could easily be accomplished with just a small part of the funds that would otherwise go to Trump's proposed tax cuts for the rich.

Trump also asserts that America can achieve great saving by cutting its UN contributions, and is reportedly preparing an executive order to do just that. Here too, the savings would be tiny in dollar amounts and recklessly dangerous in their consequences. America pays two kinds of contributions to the UN. The first is the "assessed contribution" for the UN regular budget. That's the money to pay for the basic operations of the UN. Much is made of the fact that that the United States contributes 22 percent of the regular budget, the largest share of any country. But the regular budget is modest, just \$2.7 billion a year, and America's assessed share is just \$600 million per year.

America spends another \$7 billion or so per year in so-called "voluntary contributions" for UN agencies such as UNICEF (the UN Children's Fund) and for UN peacekeeping operations. Not only are these contributions vital for saving lives and for US and global security, but they are actually cost-saving for the United States as well. In each of these cases, the United States pools its funds with many other countries and thereby share the global burden. Many of these

other donor countries give a much higher share of their GDP in aid and UN support than does the United States.

The main point is this. Even if all of the US foreign aid and UN contributions were ended, the financial saving to the United States would amount to no more than 0.2 percent of GDP, roughly a fifth of Trump's proposed corporate tax cut, and a hundredth of the federal government's outlays. The idea that such saving would substantially benefit the American worker or taxpayer is a complete myth, indeed a hoax. The result of such budget cutting would be to make the world even more dangerous and unstable and more vulnerable to epidemic diseases and other natural disasters.

The bottom line is that "America First" is economically correct in one key way, as a prescription to cut spending on America's overextended military. It is deeply incorrect in the other ways. America will not solve its jobs crisis, income crisis, or infrastructure crisis by threatening American companies, imposing tariffs, or cutting corporate taxes to bring jobs back from China and Mexico, or by slashing US development assistance or outlays for the UN. Such proposals are wholly misleading and without benefit for the American people, not to mention the potential high costs they would impose on the rest of the world.

The key to resolving America's ills depends on greater fairness, decency, and honesty lie within our own borders, notably on how we share the benefits of advanced technologies such as robotics and artificial intelligence, and the booming profits they are producing. The real counterpart of falling American working-class incomes is not the rise of Mexican incomes but the soaring profits and incomes now going to the 1 percent. The key solutions for American workers are right at home, not in overseas military adventures, new arms races or self-defeating trade wars.

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