Accounting for Trade:

President Trump and the "Geopolitical Balance Sheet"

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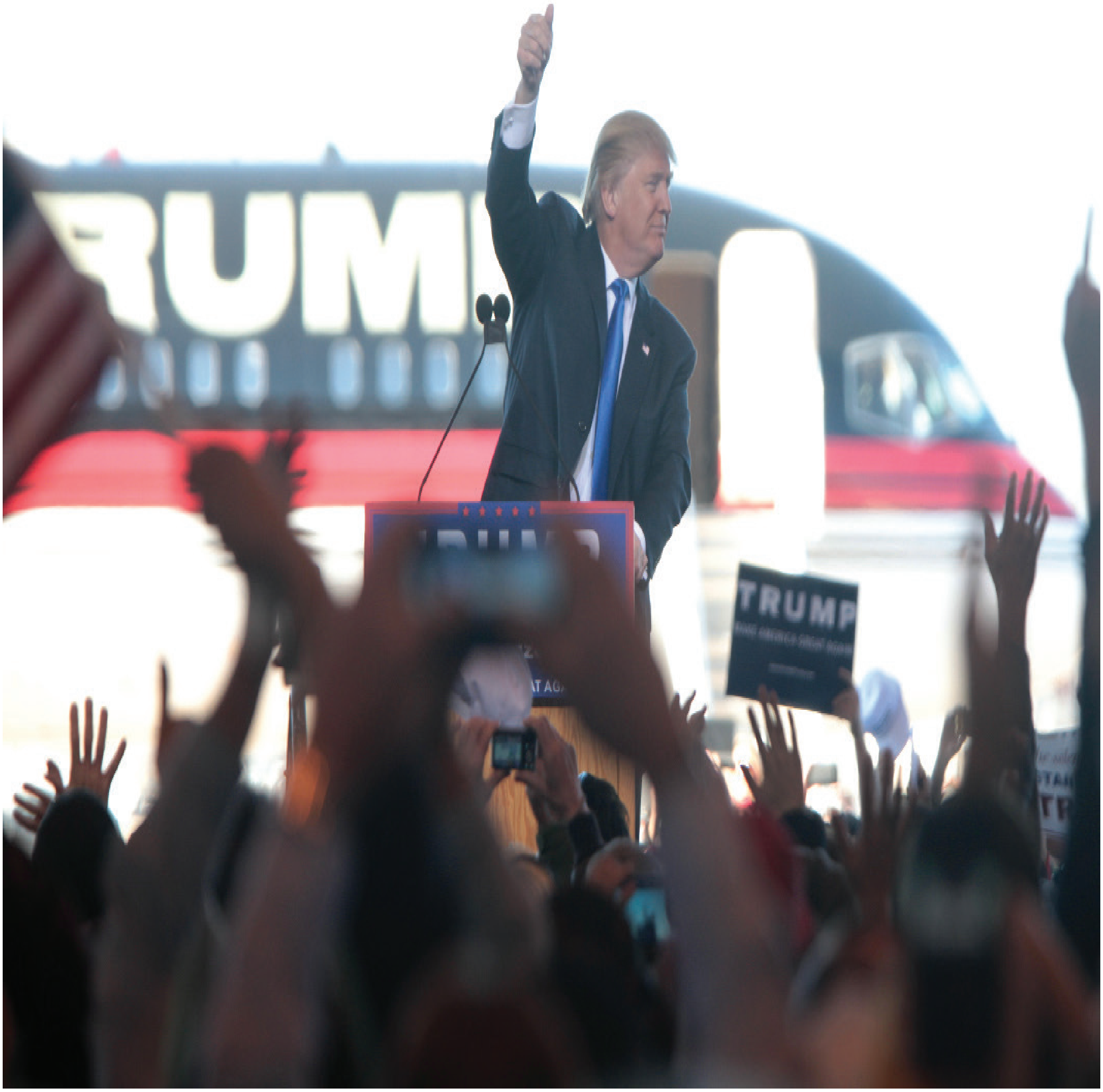

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Politics and Economics

It is the intersection of politics and economics that motivates the behavior of most nations when it comes to cross-border trade and investment. However, public commentary often separates these domains when discussing implications of a given policy or proposal for national well-being.[1] This is unfortunate, as it too often limits the proper assessment of political benefits and costs from the policies and actions under discussion. To alleviate this, we propose the notion of a "Geopolitical Balance Sheet" as a better approach to evaluate trade policy outcomes, along with the incorporation of traditional accounting notions of "assets," "liabilities," and "owners' equity." We believe this is a particularly appropriate time to consider such a proposal, not only because of the new Trump Administration's frequent pronouncements on trade but also because such terminology might have a more meaningful impact on the business-friendly inclinations of many supporters of this Administration. "When goods don't cross borders, Soldiers will." This saying has been ascribed to French economist, Claude Frédéric Bastiat-whether he said it or not-it is we believe particularly important today.

In addition to surrounding himself with several key economic advisors who have left little doubt about their negative views regarding globalism and its supporting institutions, President Trump himself has made multiple negative public pronouncements regarding cross-border free trade, declaring he will "put America first" through policies he terms "fair trade" (Fox News, October 18; M. Fisher; U. Friedman). These include withdrawal from the Trans Pacific Partnership, calls to abandon the long-standing reliance on multi-lateral trade treaties and in their place negotiate bilateral deals, impositions of "Border Adjustment Taxes" on imported goods, new tariffs on imports from China, claims of currency manipulation by China, Germany, and others, and urging citizens to "buy American" and business firms to "hire Americans" (D. Trump, "Inaugural Address").

Yet while perhaps appealing to many, these actions are not the best long-term means to address the negative side effects that globalization, free trade, and broader neoliberal economic policies have created in this country, and throughout parts of the world. Though we would be among the first to agree that such issues as worker displacement, loss of manufacturing jobs, trade deficits, and growing despair and social alienation for millions of individuals are more than worthy of public interest and attention, the imposition of President Trump's trade agenda would not only punish those whom he wants to help but could also destroy the political-economic foundations of the world as it exists today. [2]

The Returns to Trade are More Than Economic

The economic and social costs from trade, however, are real and should not be discounted. But they must be appraised against the benefits that have derived from the same policies and forces that brought them about— many of which are rooted in political dimensions as much if not more than economic considerations. Most pointedly, one could make the case that up through the middle of the 20th century modern history was essentially the history of war, capped by the unprecedented carnage of World Wars I and II. Since the end of the latter conflict, the world has enjoyed an unprecedented era of relative stability, which we would argue has been beneficial to everyone regardless of national affiliation, geographic location, and political persuasion.

Why the historical break from the past? There is no other meaningful answer outside of the global role that the United States — departing from its long traditions of political isolationism – willingly embraced in the late 1940s (B. Bartlett, 1998). Following the prescient instincts of Dean Acheson, President Truman's Secretary of State – who got Stalin and the Soviet Union right long before many others – the U.S. emerged as the world's willing hegemon committed to both democracy and a market-based economic system.[3] The protectionism that had characterized America's trade policies almost since the founding of the Republic were finally put to rest as this country took the lead in establishing programs and institutions designed to facilitate cross-border trade; these included the Bretton Woods Agreement, the World Bank, the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), the Bank for International Settlements (BIS), and collateral organizations including the UN and NATO (W. Isaacson and E. Thomas). While some argued against this new national posture, the advocates who became known as our "Greatest Generation" ultimately carried the day beginning with the Marshall Plan that was enacted in 1948. Through the extensive rebuilding plan, more than $100 billion (in current dollars) was committed by the U.S. to the reconstruction of Europe as a democratic capitalist bastion that could further contain Communism and Soviet expansionism. (Beisner).

The result was a massive rise in global prosperity in the second half of the 20th century—the "American Century" in which this nation finally displaced Great Britain as not only the dominant economic power but also as the political leader of the Free World. America's middle class expanded exponentially, its standard of living rose dramatically, and we became a beacon to the world in terms of the aspirations and hopes of people everywhere for a better life.

But this was hardly a cost-free proposition. Federal budgetary deficits that financed growth rose dramatically from WWII (peaking at over 119% of GDP in 1946) through the Great Recession following the financial meltdown of 2008. While budgetary deficits have stabilized since 2012 (estimates for 2017 are less than 3% of GDP), the cumulative amount totals nearly $20 trillion, over one-third of which is held by off-shore investors. We should also note that the period since 1980 when U.S. budgetary excesses emerged was also the modern era of globalization-- when worldwide cross-border trade in goods rose from slightly over $2 trillion in 1980 to nearly $19 trillion by 2014 at its peak (though recently dropping to about $16.5 trillion due to the slowdown in China). Moreover, the U.S. began to consistently incur merchandise trade balance deficits in the 1980s, as nations such as Japan became globally competitive. The deficits then rose dramatically early in this century as the Chinese economy boomed and imports from that nation exploded. This phenomenon peaked in 2006, resulting in a $760 billion deficit in the U.S., and today it still remains at approximately $500 billion-- with China still by far the major source of the imbalance (usgovernmentspending.com, and tradingeconomics.com).

Not uncoincidentally, manufacturing employment in the U.S. peaked in 1979 at nearly 20% of the national workforce before trending downward to about 11% today (U.S. Bureau of Labor Statistics and U.S. Federal Reserve Bank of St. Louis). In conjunction with a rising concentration of both income and wealth in a small percentage of the population (many of whom are financial services industry executives directly involved in the facilitation of globalization), along with stagnation in real wages for the middle class as traditional manufacturing jobs disappeared—both trends apparent since the beginning of the Reagan Administration in the early 1980s – it is no wonder that recent political insurgencies such as the Tea Party, Occupy Wall Street, and fringe groups associated with the Alt Right have emerged on both sides of the political spectrum. These groups point to globalization and the perceived budgetary extravagance of public welfare policies as the primary culprits in America's "demise"—forces which the Trump presidential campaign adroitly addressed and exploited in the upset victory of the 2016 election.

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A Geopolitical "Balance Sheet"

But does all of this imply that we are "losing" and that cross-border trade has been "bad" for America and its citizens? That is, have our past economic policies and actions created a vast pool of "liabilities" that demand radical address by President Trump to right the ship of state and establish a steadier course forward towards renewed national "greatness"? If we examine the data from a purely economic perspective, one can certainly find reason for concern. Interest payments to foreign holders of the budgetary deficit could be better used domestically, repairing dislocations from trade deficits might increase domestic job creation, and a national psychosis about America's "declining" position in the global economy—no matter how ill-informed – could be alleviated.

As we noted at the outset, a broader perspective would have us also evaluate the "assets" that accrued from our national will to power since the end of WWII and not just dwell on the economic liabilities, such as they are. While these assets are no doubt far more difficult to quantify, that in no way should minimize their value; in fact we argue the opposite is true. Let's examine why.

First, the willingness of the U.S. to absorb both budgetary and trade deficits helped fund the establishment of the modern global economic and political foundations that still exist today. This investment turned one-time mortal adversaries Japan and Germany, as well as some other states, into key allies and staunch supporters of American policies and values. More recently, this has also facilitated the peaceful integration of China—tightly governed by the Chinese Communist Party that historically had opposed both market-based economic trade and essentially all private property rights-- into the capitalist world economy, and reversed a trend that many believed would inevitably lead to armed conflict with the West. These are no mean feats in terms of past history. For example, the inability of the victorious European powers after WWI to stabilize global economic relations and resuscitate Germany led directly to Hitler's rise and the subsequent destruction of that region. Moreover, and perhaps most pointedly, the implicit goal of these post-WWII American-led reformist policies was also achieved: the defeat of the Soviet Union in the Cold War.

Through the advocacy and support of free trade policies we have encouraged our prior adversaries to pursue outcomes that have been win-win for everyone: global stability free from the political tensions and devastating wars that followed in the footsteps of past failures to create fair and equitable global relations. To be precise, U.S.-led policies that allowed for implementation of a non-prejudicial system of importation of goods from other countries have also built a foundation for the importation of global stability—our positive "owner's equity" pay-off that must be acknowledged and calculated alongside any trade deficit that accrued. As well, the large budgetary deficits accumulated by America since 1948 have financed the massive military might of the country— generally used, albeit with some unfortunate exceptions-- to insure global peace and compliance with global rules and norms by those who might otherwise choose to violate them. For any to argue against this, we would simply remind them of the consequences of post-World War I behaviors: Europe— the overwhelming world leader on essentially any metric chosen at the start of the 20th century—sacrificed nearly everything through adoption of invidious beggar-thy-neighbor protectionist economic policies.

Conclusion: The Time To Act Is Now

We therefore argue that global prosperity is in the American national interest. Our "greatness" cannot be measured by the economic and political deficits we would force trading partners to assume through nationalistic protectionist policies on our part. Rather, it is measured by the collective stability, security, and prosperity that we achieve together, and any accounting of these outcomes must factor them into the final bottom-line tally.

But a problem we clearly acknowledge is that these benefits are measured in the aggregate. When measured in total, over time free trade clearly generates greater benefits than costs as economic efficiencies prevail, waste is reduced, and resource allocation decisions are rationalized— which is the whole point of market-based economic theory. But what this calculation usually fails to adequately address is the social (and increasingly political) costs for some that always accompany economic adjustment. Schumpeter's "Creative Destruction" is just that—a two-sided sword. But while it is ultimately a force that favors the "creative" side of the equation, by no means should this imply that the negative consequences of change are to be disregarded or neglected as mere collateral damage to be borne by the deplorable or unfortunate.

In our view, a better and more equitable way to address the resulting imbalances and the justifiable grievances of those left behind from economic progress flowing from globalization and free trade would be to implement a comprehensive new social program, designed to invest displaced factory workers and others with skills to obtain productive employment in emerging economic sectors (e.g., the industrial internet) where such skills are in short supply. In broad form, we envision a modern-day Marshall Plan for America that establishes a foundation for future national greatness. The architecture of such a program would insure strict requirements for participant inclusion, defined metrics for evaluation of participant progress and retention, and tight fiscal oversight— much as how one would manage a successful construction project, for example (something with which the President has familiarity). Tax incentives could be provided to firms that employ program graduates, and penalties imposed on firms that bypass domestic opportunities in favor of off-shore employment; indeed, the entire program could be outsourced to U.S.-based private enterprise with appropriate rewards for achievement (an approach that has succeeded in the past toward public policy goals, for example the construction of affordable housing for low-income citizens).

Moreover, we also would posit that a program such as we advocate be superior to recent discussion about a "guaranteed annual income" as a means to deal with economic transitions. Through provision of marketable skills, our proposal would maintain the dignity of the individual and would thus contribute towards long-term economic rehabilitation of both people and the nation as a whole.

Accordingly, we think that an approach incorporating re-skilling through training can prepare America and Americans for a better future, at a cost significantly less than engaging in trade wars that ultimately distort efficient resource allocation decisions, bring reputational damage, and in general prove destructive for all involved, politically as well as economically. We would urge that a full accounting be used in the bookkeeping involved in this proposal, acknowledging the positive benefits that global peace and stability have generated (assets) alongside the costs of U.S. budgetary and trade balance deficits (liabilities). By improving the domestic situation while remaining the global guarantor of a free and open trading system—the classical "benign hegemon" – we can secure a more stable world based upon shared prosperity reflected in "owners' equity," the major proportion of which would still accrue to the USA due to the size, structure, and dynamism of our economy.

Recent events would indicate that we are already beginning to witness a reclassification of national "debits and credits" in the geopolitical balance sheet as we have characterized it in this paper. News reports indicate that President Trump might be altering his views on a number of topics relative to trade; these include, among others, a reversal of earlier claims that China is a currency manipulator, that the Export-Import Bank should be abolished, the Chair of the Fed should go, and that NATO was an obsolete institution (C. Wang, 2017; N. Kitroeff, 2017). To be sure, this might reflect little more than a "learning curve" effect that any President undergoes once the campaign trail ends and the realities of office emerge; as well, the ambiguities of the President's commitment to his prior statements raise doubts. Nevertheless, it is a tentative start towards a more realistic assessment of the benefits that globalization can provide to the nation as well as the entire world economic system. If this can now be extended and deepened through future Presidential action, we welcome it as a positive step towards increasing the "owner's equity" of globalization and paving the way for a future stream of dividends that will enrich all stakeholders in the game. This, we conclude, can truly make America great again.

NOTES

[1] Academic approaches to the social sciences tend to separate subjects into discrete categories, as interdisciplinary studies are often perceived as too generalized to be of serious consequence; for example, see issues of the Journal of International Economics or the Political Science Quarterly among others. However, we might also note that President Trump has recently conflated these topical areas: he called on China to get tougher on North Korea's nuclear armaments program and indicated that China's trade relations with the US could be improved if that happened; see J. Wagner, "Trump Breaks Silence on North Korea, Defends Reversal on China, The Washington Post (April 16, 2017).

[2] One need only recall the various anti-free trade legislative actions of many of the trading nations of the world that occurred in the 1920s, capped by passage of the US Smoot-Hawley tariff of 1930 and the 1932 legislation of the Commonwealth countries, to realize how nationalistic economic policies played into political

movements that resulted in the rise of totalitarian dictatorial regimes in Europe and elsewhere and the subsequent descent into WWII. See, for example, A. Tooze, The Deluge: The Great War, America and the Remaking of the Global Order, 1916-1931 (2014) and B. Eichengreen, The European Economy Since 1945 (2007)

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