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Your Taxes at Work: Some Foreign Arsenal Assembly Required

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The Trump administration finally released its updated US Conventional Arms Transfer Policy and, within about a week, notified Congress of over a billion dollars worth of sales. The new document reads very similar to the Obama administration's policy published in 2014, with a few very important differences — one of which is the incorporation of profit into the equation.

There has always been a strong case for the economic-driven side of arms sales from the defense industry — after all, arms sales do affect their bottom lines. But the Trump administration has added several important phrases, including a new tenet: that arms sales should increase "economic security" and "create jobs."

Profit — a factor that had been secondary to national security and foreign policy concerns — is front and center in Trump's new policy, in keeping with his deal-oriented mindset. This could have significant implications if the government switches the means by which it entices customers from offsets to financing options. The first option burdens the defense industry, while the second burdens the defense budget.

Which is to say, this should concern you not just from a strategic perspective, but also as a taxpayer.

Trump's new policy encourages a "whole of government" approach to pitching arms sales abroad. The change will effectively turn civil servants who had been third-party brokers between foreign governments and American defense contractors into de facto salespeople. Officials talking up American defense products isn't new, but giving them the directive to increase "economic security" gives profit a greater emphasis — with the commander-in-chief and his 2017 sales pitches to the Saudis, for example, offering model behavior in this regard.

Currently, the majority of incentives to foreign buyers of American weapons come in the form of offsets. These agreements are made once the US government has cleared a sale and the company can liaise with whichever foreign government is purchasing the product. Offsets are meant to make the deals more attractive, and can include anything from co-production to technology transfer to Foreign Direct Investments. This takes a major cut out of any profit for the defense contractors, who shoulder most of the cost. In 2014 alone, contractors reported $20.5 billion in defense-related merchandise exports, with $13 billion worth of those sales including some kind of offset. The total value of reported offset agreements for that year was $7.7 billion — over one-third the value of total defense exports for that year.

Obviously, this makes offsets an unattractive option for increasing economic security. The defense industry would prefer not to bear that burden — so then how will diplomats sweeten the deal for interested buyers while still protecting profit margins?

Foreign Military Financing to the rescue. The Arms Export Control Act authorizes the president to financially assist nations interested in US defense products and services. While all that sounds technically sound, this financing comes in the form of either a grant (free money to never be repaid) or as direct loans (which are then sometimes forgiven).

This type of financing comes directly out of the US federal budget — specifically out of the State Department's portion. The final budget omnibus that was signed into law in March settled on $6.1 billion to give freely to other countries to purchase American weapons.

That's right — $6 billion of American taxpayer dollars this year alone will go towards subsidizing the arsenals of other nations so that they too can "Buy American." Foreign Military Financing had, until now, been on the decline. From 1985 to 2015 the program decreased 50 percent in real terms. With this new economic security component to stated guidance on arms sales, there is a very real possibility that Foreign Military Financing could continue to rise.

Equally frustrating is Trump's sound bite that arms sales will preserve and create more jobs back home — particularly in manufacturing. Jonathan Caverley, a professor at the US Naval War College, recently pointed out that the "Commerce Department estimates that a billion dollars of defense exports would 'create or sustain' 3,918 jobs." That's 1,782 fewer jobs than the 5,700 that would be generated just by increasing US exports more broadly, according to the Commerce Department's numbers. In fact, research shows that virtually any other sector — health care, education, infrastructure — would be a better place to seek job creation.

While the arms trade sustains some jobs in the United States, it also creates jobs abroad. A frequently used offset is licensed production, which means that the US sells the information and parts to a weapons system but then it's assembled partly or entirely *in the recipient nation*. The F-35 deal Trump touted back in November of 2017 as creating jobs will in fact do so — but in a Japanese production facility, not an American one. Other deals following this model include a recent sale of Lockheed Martin/Sikorsky helicopters that will be assembled in Saudi Arabia.

The defense industry takes these trends to heart — Raytheon has already announced the creation of Raytheon Arabia, a "Saudi entity owned by the Massachusetts-based firm." Lockheed Martin and Boeing have also already pitched joint-venture projects with the Kingdom of Saudi Arabia — America's number one client. With more and more companies creating defense jobs overseas, it's clear that arms sales will have an even more diminished impact on the creation of jobs stateside.

So unless you're already employed by the defense industry, there's a good chance that the taxes that come out of your paychecks will be paying for Trump's increased sales.

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