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RESEARCH BRIEF

Economic Benefits of U.S. Overseas Security Commitments Could Far Outweigh Costs

There is intensifying debate over the resources that the United States devotes to its overseas security commitments. While some leaders contend that the commitments generate economic returns greater than their costs, others have called for steeply reduced commitments in the face of mounting fiscal pressures. In 2015, U.S. Secretary of Defense Ashton Carter warned that the present level of U.S. overseas commitments could not be maintained under existing budget caps, further fueling the debate between those who wish to reduce U.S. defense burdens and those who wish to increase the U.S. defense budget to sustain the overseas security commitments.

Given the essentially financial nature of the current debate, the question of whether the United States derives both economic and security benefits from its overseas commitments is of central importance. Until recently, hard data to help answer this question had not existed. But newly available data indicate that the trade benefits to the United States of its overseas security commitments could far outweigh the budgetary costs. Even conservative estimates suggest that the domestic economic benefits of these commitments add up to more than three times the costs.

Key findings:

- U.S. overseas security commitments have a positive, statistically significant effect on U.S. bilateral trade. Doubling U.S. security treaties would expand U.S. bilateral trade by an estimated 34 percent, and doubling U.S. troop commitments overseas would expand such trade by up to 15 percent.
- Trade losses from a 50-percent retrenchment in overseas commitments would reduce U.S. trade in goods and services by approximately $577 billion per year. This reduction in trade would likely reduce U.S. gross domestic product by $490 billion per year.
- The economic losses from retrenchment are conservatively estimated to be more than three times any potential gains.

Debating the Merits of America's Global Leadership

Since the 1940s, U.S. leadership of the international system has been justified, in part, by claims of a positive relationship between global stability and domestic prosperity. Advocates of this school of thought—the "engagement school"—have argued that the political and military stability provided by the United States also fosters international economic stability, benefiting the United States by fostering trade in goods and services, access to global capital, and therefore higher rates of economic growth at home. Policymakers and many academics have long accepted the logic of this claim, although the economic returns from overseas security commitments have been extraordinarily difficult to demonstrate empirically.

Pointing to this lack of evidence, a growing school of thought—the "retrenchment school"—has called for a wholesale reduction of U.S. overseas security commitments. The retrenchment school argues that the U.S. commitments are too costly to sustain, allow partner governments to free-ride off the U.S. defense budget while taunting their adversaries, and fail to deliver the promised security and stability. Some proponents of the retrenchment school, in academia and beyond, have called for as much as an 80-percent reduction in U.S. security commitments and military presence in Europe, Africa, the Middle East, South Asia, and East Asia.

Fortunately, two new longitudinal databases—one of U.S. troops abroad, the other of U.S. treaties with partner governments—have given RAND researchers new tools for assessing the relationships between both of these types of security commitments and four key outcomes: U.S. bilateral trade, global bilateral trade, trade costs, and civil conflict. By measuring these relationships, the RAND research team can estimate what might happen to the U.S. economy and to regional stability given a major retrenchment in U.S. commitments.

Erring on the side of caution, the RAND researchers compare the economic gains promised by the retrenchment school's maximum-proposed 80-percent retrenchment plan with the economic losses that could be incurred from just a 50-percent retrenchment plan. (The latter, smaller plan falls more squarely within the bounds of historical U.S. experiences with other countries, allowing the economic consequences to be estimated with a higher degree of confidence.)

Assessing the Relationships Between Commitments and Outcomes

RAND's econometric methodology tests the relationships between U.S. security commitments (troops and treaties) and their hypothesized outputs (trade and conflict). The analysis relies on longitudinal methods and explores how changes in the number and kinds of troops and treaties correlate with changes in the outputs five years later, thereby ruling out factors that could drive commitments and outputs contemporaneously. Given the limited data available, quantifying the outcomes as five-year lag effects is the best method currently available for assessing causality. In all four of the analyses—of U.S. bilateral trade, global bilateral trade, trade costs, and civil conflict—the RAND team excludes Canada and Mexico, which together accounted for about 30 percent of U.S. bilateral trade in 2015, because they share North America with the United States and are thus likely to be affected differently by any type of U.S. retrenchment overseas.

In their first test, the RAND researchers find solid evidence that U.S. security commitments have a positive, and statistically significant, effect on U.S. bilateral trade. This analysis examines the relationships between U.S. security commitments with 177 countries from 1955 to 2004 and, given the five-year lag in the empirical approach, their bilateral trade with the United States from 1960 to 2009. The results suggest that doubling the number of U.S. security treaties with other countries would expand U.S. bilateral trade by an estimated 34 percent. This result stems from both "economic" security treaties (those that emphasize financial assistance or military materiel) and "noneconomic" security treaties (those that emphasize access rights, joint operations, defense guarantees, or administrative and legal matters). Meanwhile, doubling the number of U.S. troop commitments overseas would increase U.S. bilateral trade up to 15 percent, depending on the armed service.

In the test related to global bilateral trade, which examines nearly 11,000 bilateral trading partners over the course of four decades, the researchers again find that U.S. security commitments, both treaties and personnel, have statistically significant positive effects on non-U.S. global bilateral trade. This means that countries with U.S. security commitments conduct more trade with *one another* than they would without the commitments. Doubling the number of U.S. security treaties with other countries could expand global bilateral trade by more than 50 percent, while doubling the number of U.S. troop commitments could do so by as much as 10 percent. For both U.S. and global bilateral trade outcomes, the increased trade occurs primarily with new trading partners rather than ongoing trading partners.

The third test explores the relationship between security commitments and trade costs. Here, the researchers find mixed evidence regarding the effects of different kinds of U.S. commitments on the costs of shipping by air or water. The fourth and final test explores the relationship between U.S. security commitments and civil conflict. The researchers find no evidence that the commitments influence the likelihood or intensity of civil conflict, either for better or for worse.

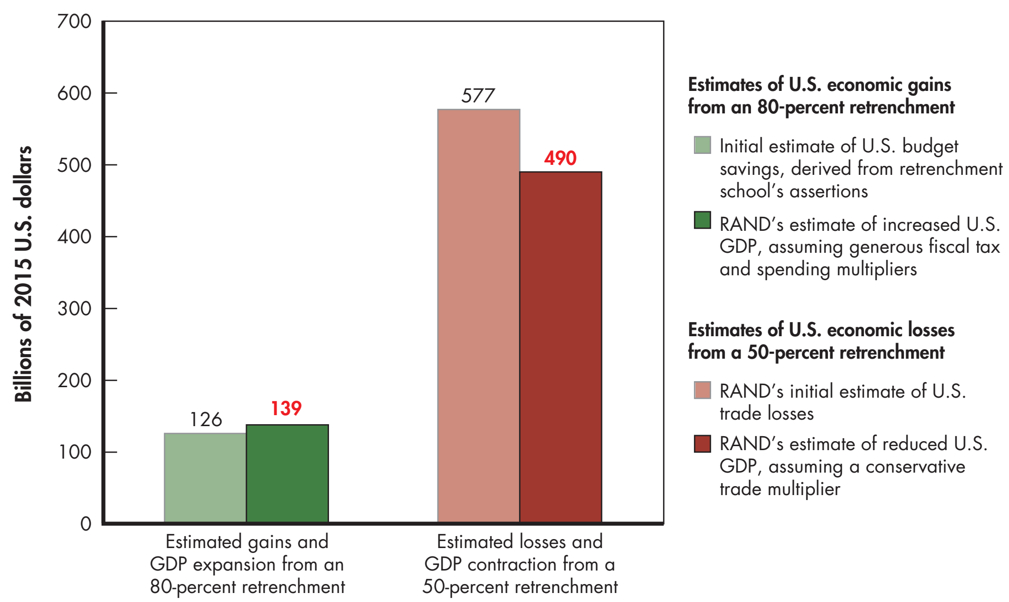
Assessing the Consequences of Major U.S. Retrenchments

Based on the estimated empirical relationships outlined above, the RAND team compares the estimated budgetary gains from major retrenchments in U.S. overseas security commitments with the estimated trade losses. As a benchmark, the researchers accept the retrenchment proponents' suggestion that an 80-percent retrenchment plan would save the U.S. defense budget $126 billion per year. Proponents of the 80-percent retrenchment plan say that it would allow U.S. defense spending to fall to 2.5 percent of U.S. gross domestic product (GDP), down from the currently estimated 3.2 percent—amounting to a budgetary savings of 0.7 percent. The Congressional Budget Office's estimate of 2015 U.S. GDP is $18 trillion, 0.7 percent of which is $126 billion. By applying generous economic assumptions about fiscal tax and spending multipliers to that $126 billion sum, the researchers then estimate that this initial reduction in government spending could increase U.S. GDP by as much as $139 billion per year.

In comparison, the researchers assess that just the trade losses from a 50-percent retrenchment (much smaller than the 80-percent cutback proposed by some in the retrenchment school) would add up to an annual loss of as much as $577 billion in U.S. trade in goods and services—or 18 percent of U.S. annual bilateral trade (excluding trade with Canada and Mexico). Based on a conservative trade multiplier, the analysts further estimate that the ultimate decline in U.S. GDP resulting from this 50-percent retrenchment would be somewhat less than the total loss in trade—to be precise, just 85 percent of the value of the lost trade, or $490 billion per year.

In other words, the economic losses from retrenchment are conservatively estimated to be *three and a half times greater than the gains*, even assuming a smaller retrenchment for the losses than for the gains (see the figure). The estimated gains from a 50-percent retrenchment, of course, would likely be even lower than those from an 80-percent retrenchment. All of this suggests that U.S. policymakers should carefully weigh the potential losses against the potential gains when considering

Even Under Conservative Assumptions, the Economic Gains from a Major Retrenchment in U.S. Overseas Commitments Are Estimated to Be Less Than One-Third of the Economic Losses



SOURCE: *Estimating the Value of U.S. Overseas Security Commitments*, 2016.

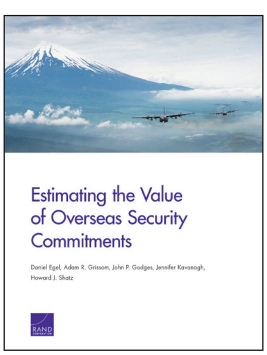
In estimating the comparative gains and losses associated with retrenchment, the RAND analysts explore a range of plausible scenarios premised on a range of different assumptions. In the vast majority of scenarios, the losses outweigh the gains, often by a factor of three or more, as readers can explore on their own using the interactive databases at www.rand.org/t/TL229.

the desirability of large-scale retrenchments of U.S. overseas security commitments.

The RAND analysts recognize the limitations of their study but view it as a solid foundation for future exploration. For example, quantifying the outcomes as five-year lag effects is a reasonable way to assess causality given the limited data available, but future data might also allow analysts to compare the effects of security commitments that were implemented with the effects of those that were not. Refined data might also give analysts the chance to pinpoint the particular effects of different types of troops and treaties more precisely. The economic data, meanwhile, are currently limited to trade, but overseas commitments could have major implications for foreign investments and international capital flows as well, meaning that this preliminary study could be, if anything, underestimating the potential economic losses associated with retrenchments.

In addition, the analysis captures neither the possible long-term benefits to the U.S. economy from freeing up resources from overseas commitments for other productive uses nor the potential long-term costs to the U.S. economy from suppressing global trade through retrenchment. These long-term gains and losses could be substantial, but they are not expected to alter the bottom-line conclusion that retrenchment would cost the U.S. economy much more than it would save.

The bottom-line estimate today is that the annual benefits to America's GDP from reducing U.S. overseas security commitments by 80 percent could reach nearly $140 billion, whereas the annual costs to America's GDP from reducing these commitments by even just 50 percent are likely to approach $500 billion. Policymakers who reduce these commitments would face not only the immediate problems of how and where to make such reductions overseas but also the future problems of a poorer United States.



This brief describes work done in RAND Project AIR FORCE, documented in *Estimating the Value of Overseas Security Commitments*, by Daniel Egel, Adam R. Grissom, John P. Godges, Jennifer Kavanagh, and Howard J. Shatz, RR-518-AF, 2016 (available at www.rand.org/t/RR518). To view this brief online, visit www.rand.org/t/RB9912. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark. © RAND 2016

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