



**STRATEGY
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NATIONAL POWER AND A NATIONAL ECONOMIC STRATEGY

BY

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ABSTRACT

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Our current thinking about national strategy and national security is skewed towards the military element of power. This study argues that economic power is and always has been the primary determinant of national power and, therefore, national security. As we have concentrated our efforts on achieving military dominance we have experienced both increasing limitations on the use of that form of power and the adverse effects of our declining economic power. The paper acknowledges that, while military power might have been essential in countering the global threat of communism, economic power is far more critical in maintaining our global power and influence.

Our future National Security Strategy must concentrate our attention and resources on achieving the economic power necessary to preserve true national security. The recently (1993) created National Economic Council might well provide a structure, framework and process for developing a new national security strategy centered on economic rather than military power.

Introduction

The current United States National Security Strategy (NSS) and the way we think about national power are flawed. Our definition of national security and the resources we devote to ensure it have been focused towards military ends, ways, and means. Economic¹, not military power, is the most appropriate measure of national success and determinant of national power. Military power is not only derived from and sustained by economic power, it is increasingly less useful in advancing or protecting national interests. There is also historical evidence that focusing on military power to protect national interests ultimately erodes the economic base from which that military power flows. For this reason, real national security and economic security cannot be considered or achieved independently.

Our continued negligence of economic power - its accrual and application - is reflected in our NSS. The U.S. is in danger of becoming a regional power in the next century - we will lack the economic strength to fulfill our global military commitments and exercise diplomatic influence. Unless we include and elevate economic strategy as a component of national security strategy to a level at least equal to that of our military strategy, our ability to shape international events and outcomes will inexorably decline. Just as we deliberately calculated and achieved the military power necessary to meet the challenge of

Soviet communist expansion, we must now deliberately calculate and achieve the economic power necessary to ensure our future national security in a world of economic competition.

I will begin this paper with a short critique of our conventional thoughts on national power and national security, emphasizing the prevailing military bias. I will contend that economic power is the central determinant of national security, the *sine qua non* of national power. To support this assertion, I will give specific examples relating national power to a preponderance of economic, not military, power. I will then briefly describe how our military power is becoming less relevant in a changing world at the same time that our economic power is declining. Finally, I will offer some prescriptive thoughts on refocusing our national security strategy on economic power, rather than military power. In this, I will critique the role of the National Economic Council, created in 1993 by the Clinton Administration to "coordinate and formulate economic policy."

NATIONAL POWER AND NATIONAL SECURITY

National security is, by definition, the protection and preservation of our people, our territory and our way of life. Our national (security) strategy is defined by the Department of Defense as the "art and science of developing and using the political, economic and psychological powers of a nation state,

together with its armed forces during peace and war to serve national objectives."²

In National Power, Dr. David Jablonsky of the United States Army War College defines national power as " ...the strength or capacity that a sovereign nation-state can use to achieve its national interests... the general capacity of a state to control the behavior of others."³ He discusses the various elements of national power, categorizing them as natural determinants - geography, population and natural resources - and social determinants - economic, military, political, and psychological.

Although he makes the point that the elements of national power are interrelated and "determinism of any kind,..., is clearly out of place,"⁴ his article misses one very important point - economic power is a prerequisite to achieving military power, while military power is not required to achieve economic power. There are, in fact, numerous examples of nations lacking some or all of the other determinants of power, who have achieved significant national power through economic strength alone.

Consider Jablonsky's commentary on China and Japan - "Today Japan has a GNP more than three times that of the People's Republic of China, yet the latter has *equal* (emphasis added) stature as a great power because it has mobilized the military

sector of its economy to produce nuclear weapons, guided missiles and submarine launchers."⁵

A very different and, I believe, correct representation would be - "Today China has nuclear weapons, guided missiles, submarine launchers, substantial natural resources, the largest active military force in the world, nearly ten times the population and over twenty times the land mass of Japan⁶, yet the latter has *equal* stature as a great power because it has more than three times the GNP of China." Japan's per capita GNP is 71 times that of China's⁷ - which country is ahead in international competition and which country exercises the greatest global influence?

China, however, has the fastest growing economy of all major countries and that economic growth can lead to substantial growth in military capabilities and projection force.⁸ China's Gross Domestic Product (GDP) has grown at an average annual rate of 10.29% (1984-1993)⁹; the U.S.' GDP growth rate for the same period averaged 2.84%¹⁰. While China's growth rate may not be sustainable¹¹, there is a great body of evidence that the U.S.' growth rate is declining even faster, as economic and political pressures have eroded our nation's productive and growth capacity.¹² If, however, both countries sustain these growth rates, China's GDP will surpass that of the U.S. in 2029.¹³ Should the Chinese choose to spend a meaningful percentage of

their GDP on defense (more than 5 percent), the U.S. will be hard-pressed to militarily dominate the Asia-Pacific region.

On the other hand, Japan is today a virtual nuclear power¹⁴ and possesses considerable latent military power, in spite of the fact that they devote less than 1 percent of GDP towards defense spending.¹⁵ That 1 percent of a GDP which is roughly equivalent to the U.S.' GDP ranks their defense budget as the third highest in the world.¹⁶ Japan, however, does not and cannot (U.S. imposed constitutional prohibition) have global security commitments that require an expensive power projection military. Since the end of World War II, they have been able to devote the bulk of their economic and political effort towards capital formation, infrastructure, global trade and investment.¹⁷ That does not mean that their military is less sophisticated or professional than that of the U.S. - many of the technological spin-offs and demand benefits of U.S. defense spending have accrued to the Japanese armed forces and Japanese industry without the cost of the U.S. defense overhead.¹⁸

None of the Asian tigers (Singapore, Hong Kong, Taiwan, South Korea) possesses a global military capability, meaningful land mass, natural resources or large populations. All have strong, global influence (political and economic) because of their economic power. "South Korea, through its economic and technological progress, has been able to reduce, if not remove,

the provision by Russia and China of military aid to North Korea. This, coupled with North Korea's abysmal economic performance, has dramatically improved the military balance in favor of South Korea."¹⁹ Taiwan has been able to elicit the direct military support of the U.S. in its present confrontation with China. Is this because of a moral commitment on the U.S.' part or is it because Taiwan holds the world's largest reserve of U.S. dollars and is a major trading partner of the U.S.? Regardless of the answer to that question, Taiwan's considerable economic clout has also enabled it to maintain a formidable regional military capability, actual and potential.²⁰

Causality between economic power and military power does not just apply to emerging and re-emerging powers. In 1939, the U.S. possessed overwhelming latent economic power and, notwithstanding the U.S. Pacific Fleet, relatively modest global military capability. Its Army consisted of "only 187,893 men, of whom only 13,039 were officers... and the existing defense industrial base was minuscule."²¹ Only through a full mobilization of our economic capacity were we able to create military power sufficient to defeat the Axis powers. On the other hand, for all of the Soviet Union's military power, it could not sustain its national power and global influence. "Economic failures... were in large measure responsible for the decline in the military and political power of the Soviet Union and its allies."²²

Our national security prejudice in favor of the military element of power can be seen in another of Jablonsky's commentaries on national power. In discussing military technological prowess, he observes that "America's explosion of a nuclear device instantly transformed its (overall?) power position."²³ I would contend that this accomplishment was the result of the U.S.' financial, intellectual, technological and industrial capacity to produce goods and services of all kinds - its economic power²⁴ - rather than a manifestation of military power.

There is a body of historical evidence that suggests regional and global powers diminish their economic power by attempting to maintain military superiority in an ever-expanding "sphere of interests" - a phenomenon known as "imperial overstretch."²⁵ The costs of maintaining technological and numerical military superiority to meet the ever expanding military commitments of a global power ultimately demand more from the domestic economic base than any benefits they can possibly return.²⁶ America's Cold War nuclear strategy is an instructive example - whatever their necessity or utility might have been, the fact is we spent over \$4 Trillion on our nuclear force and are now in the process of eliminating the majority of those weapons.²⁷ That one figure closely approximates the current national debt of the U.S. and is almost six times the current net foreign debt of the U.S..²⁸ One can only speculate

how \$4 Trillion in commercial R&D, infrastructure and education spending might have improved U.S.' competitiveness in global commercial competition.

The Growing Limits of Military Power

For those nations that look proudly and first to their military might, caution is advised. The list of circumstances where the U.S.' possession, threat or use of military power has proven inappropriate and ineffective towards resolving or eliminating conflicts is much longer than the Dominican Republic-Grenada list. The Vietnam War is the most glaring example. Our military super-power status has also done little to counter Moslem extremism (Iran), remove Castro or Hussein from power, eliminate North Korean terrorism, wipe out international drug cartels, halt Chinese arms sales, stem a rising tide of Russian nationalism, reduce Middle East tensions, restore failed African nations, or stop Bosnian genocide.

Only an exceptional congruence of international interests, regional cooperation and domestic political conditions enabled the U.S. to forge a coalition against Saddam Hussein's Iraq. "It is nonetheless a fact that this was the first U.S. military operation in this century that America felt unable to pay for by itself... The U.S. ultimately received pledges of over \$50 billion from its allies. But there can be no assurance that in

the future, U.S. intervention will be called for in areas of the world where so many other wealthy nations have parallel or common interests and will thus be willing to foot so large a share of the bill."²⁹

In the short and medium term, military power is indispensable. There are real military threats to our physical security and our interests - rogue nations and state-sponsored terrorists, all with access to weapons of mass destruction (WMD). Military power is necessary to counter these threats and to preserve and protect our economic gains and position - it is a form of insurance. The harsh reality, though, is that there are fewer and fewer circumstances where military power is an appropriate, effective tool in advancing and protecting our interests.

The most common global threats to peace and stability - population growth, hunger, disease, unequal distribution of wealth, drug trafficking, inadequate infrastructure, lack of capital, and lack of basic services (housing, water/sewer, power, medical, education) - require economic solutions. Even ethnic and religious strife usually derive their momentum from these underlying conditions. Military power may **protect** us and others from the effects of these threats and it may even mitigate some of the effects through humanitarian relief efforts; it will do little to **eliminate** them.

Declining U.S. Economic Power

As the U.S.' military power becomes less useful and relevant in calculations of international power, the overwhelming evidence is that its economic power is diminishing. Poor macroeconomic performance (slowing growth, burgeoning public and private debt, low savings rate, low investment, high consumption) and expanding commitments to global security and domestic spending (primarily entitlements) have combined to erode our national influence and power.

Examples of America's economic decline are not merely anecdotal. Jeffrey Madrick's The End of Affluence enumerates the U.S.' decline in absolute and relative economic power - net investment (as a percentage of GDP) was 3 percent in 1994, compared to 7 percent and 8 percent in the 1950s and 1960s; capital investment per worker rose by 1.3 percent annually between 1973 and 1987 compared to 6.4 percent for Japan and 3.5 percent for Germany; the six leading Asian nations produced more scientists and engineers than the U.S., Europe and Canada combined; our savings rate has fallen from 8 and 9 percent in the 1960's and 1970's to 4 percent and less in the 1980's and 1990's; the investment in education by the U.S. fell from 4.7 percent of GDP (1959-1971) to 2.7 percent (1971-1985)³⁰; our net foreign debt is the largest in the world (680 billion in 1994)³¹; and we

have had a growing trade deficit since 1974.³²

While we borrow to finance private consumption (67.7 percent of GDP)³³ and our budget deficit, economies with better prospects are attracting our investment capital - in 1994 Americans sent \$14.4 Billion more in equity capital (foreign direct investment) than they received.³⁴ Our Gross Domestic Savings are lower than all our competitors and the world average - 15.2 percent against Japan's 32.7 percent, China's 40.2 percent, the OECD's 21.2 percent and the world average of 22.0 percent).³⁵ Our lack of capacity to fund current living standards is apparent at the microeconomic and macroeconomic levels - "Total household debt rose from 59 percent of annual income in 1973 to 82 percent in 1993, and federal debt now amounts to about half of GDP compared with less than a fifth in 1973" (*Economic Report of the President, 1994, p. 82*).

Lawrence Franko has documented the decline of large American corporations in their global competition for market share in 15 industries - his assessment is that "U.S. firms have declined in relation to foreign competitors in almost every industry."³⁶ Most troubling in his analysis is that the "decline has begun to be noticeable in high-tech and resource based sectors", previously thought "immune from declines in U.S. dominance."³⁷ There is a strong macroeconomic case for one cause of this decline - "channeling economic resources [towards military

competition] while ignoring [economic] competition from capitalist allies."³⁸ Kennedy would argue that this decline is a natural consequence for all successful nations - one shared by Egypt, Greece, Rome, Spain, the Netherlands, and England. Others argue that military spending can and does have the same beneficial demand effects as non-military spending - the evidence is that this is true only in the earlier stages of a developing military power, during basic industry growth and infrastructure development.³⁹ There are few domestic or international customers for a nuclear warhead.

All of these factors translate to reduced economic activity - growth, profits, job creation, income, capital formation, etc. - in the U.S.. This in turn translates to reduced government tax revenue and increased government spending to meet the electorate's expectation for a high standard of living. The bottom line is a government increasingly less able meet its obligations, be they domestic or international.

At the very least, lack of or declining economic capability assuredly reduces the U.S. ability to shape events and determine outcomes. At the end of WW II the U.S. was the only source of capital to rebuild Europe and Japan, sponsored the GATT, NATO, World Bank and IMF and could easily afford to purchase the output of a recovering world economy.⁴⁰ By and large, we could dictate the behavior of our allies (British in 1956 over the Suez

Canal⁴¹, Japan and Germany throughout reconstruction) and, at least, contain our enemies. Today, we do not have the economic clout to stop the Russians or Poles from supplying Iran,⁴² stop the Singaporeans from caning an American teenager or even guarantee military landing rights on our allies territory (France during the 1983 Libya airstrike, Japan over N. Korea and China,⁴³ European allies during the 1973 Arab-Israeli War). Today we are in arrears to the U.N. (half because of ideology and half because of budget pressure) and are reducing our commitments to international organizations we founded to promote stability.⁴⁴ Our budget debate is not centered on how much more we will spend on R&D, infrastructure and education - the debate is only over slowing the growth of government subsidized consumption and how much to reduce spending on defense and foreign aid.

In diplomacy, economic and military matters, "As the gap between American pronouncements and the practical American ability to enforce them becomes more glaring - the defense of American interests will become measurably more difficult."⁴⁵ The barriers to effective action may be complex, but the fact remains - we will not be able to maintain the status quo, militarily, economically, or diplomatically, without a continually improving economy.

THE CURRENT NATIONAL SECURITY STRATEGY

"Protecting our nation's security - our people, our territory and our way of life - is my Administration's foremost mission and constitutional duty. The end of the Cold War fundamentally changed America's security imperatives. The central security challenge of the past half century - the threat of communist expansion - is gone. The dangers we face today are more diverse. Ethnic conflict...rogue states...proliferation of weapons of mass destruction...large scale environmental degradation exacerbated by rapid population growth." - Preface to the National Security Strategy, February 1995. The document continues by describing how the United States will apply its military, diplomatic, and economic power to advance the following central goals:

- To sustain our security with military forces that are ready to fight.
- To bolster America's economic revitalization.
- To promote democracy abroad.

The NSS devotes slightly more than two pages to economic power and eleven pages to military/diplomatic power. It is global in scope - the U.S. has vital interests in all regions except, perhaps, Africa. In three of five integrated regional approaches (Europe and Eurasia, East Asia and the Pacific, The

Middle East, Southwest and South Asia), military power is "the first and most important element of our strategy". The Institute for National Strategic Studies publishes an annual Strategic Assessment. In the 1995 edition, only the last of sixteen chapters deals with economics. In that chapter, of six pages devoted to "Key U.S. Security Issues", only one-half a page discussed ways to improve macroeconomic performance⁴⁶ - nearly three pages held forth on mitigating the effects of dependence on foreign suppliers, maintaining the defense industrial base and applying economic sanctions.

The global and military focus of the NSS is a classic example Kennedy's "imperial overstretch." Simple arithmetic can show that this strategy is untenable. I have already postulated China's likely economic ascendancy in the Asia Pacific region. There is no evidence in the NSS that the U.S. intends to abandon its security commitments in that region nor is there any evidence that the U.S. will be able to maintain its military spending at current percent of GDP levels (3.1 to 3.5%).⁴⁷ China has gone on record that they "do not recognize the United States as a power which claims to maintain the peace and stability of Asia."⁴⁸ Given this Chinese pronouncement and my admittedly simplistic economic calculation, it is improbable that the U.S. will be able to counter China's regional influence in 2030 or beyond.

Even assuming the Chinese spend a modest amount on defense,

diffusion of technology⁴⁹ will allow the Chinese to acquire qualitative parity with the U.S. at a much lower cost⁵⁰ - in absolute numbers (of men under arms), they already far surpass us.⁵¹ At the same time, U.S. has committed its military power to protecting interests in, at the very least, Europe and Southwest Asia. How practical is it then for the U.S. "to deter regional aggression and secure our own interests (by maintaining) an active presence and (continuing) to lead"⁵² in East Asia and the Pacific?

A New National Security Imperative

Whether U.S. economic power is supplanting military power or not, one fact is certain - our economic performance over the past thirty years has severely limited our ability to sustain our military power and diplomatic influence. The NSS explicitly recognizes "that we must revitalize our economy if we are to sustain our military forces, foreign initiatives and global influence.." ⁵³

At the same time, our NSS commits the U.S. to a global activist role - protecting an array of economic and political interests in nearly every region. It ignores the economic, political, military and historical reality that a status quo with one global power cannot endure.⁵⁴ At the very least, selected regional powers will endure and some regional hegemony will

emerge - there is a significant probability that we will see a collection of regional hegemons (U.S., China, Germany, Iran, South Africa) established on econo-military foundations to the exclusion of any one global power. The process will be messy and the U.S. is not in the economic or military position to determine the outcome, other than in its own hemisphere, and increasingly less able to influence the outcome.

Nor does the NSS address the central issue of declining U.S. economic performance in any meaningful way. Global free trade, government business advocacy, liberalized export regulations, dual-use R&D and deficit reduction will not give us a competitive advantage over our competitors. Macroeconomic conditions - spending, saving and investment behaviors - have to change dramatically, at the government, industry, family and individual levels.

There is hope. We have a good understanding of economic activity - macro and microeconomic - and we have had some success in influencing macroeconomic outcomes such as inflation and unemployment. We understand the relationship between savings and investment, monetary and fiscal policy, etc. and we can measure these with relative accuracy and timeliness. We also have models for understanding the requirements for competitive success, at the business, industry and national levels.⁵⁵ We need to synthesize this information against the backdrop of world

economic competition and domestic political constraints and forge a national security strategy that recognizes the primacy of economic power over military and diplomatic power.

TOWARDS A NATIONAL ECONOMIC STRATEGY

There is ample evidence that national economic strategies, explicit and implicit, can be successfully developed and implemented. In Singapore, Japan, Korea, China, Chile, Germany, and the former U.S.S.R we have examples across the spectrum of size, political systems, resources, market strategies, etc. where strategies resulted in rapid economic transformations. The challenge is two fold - recognize the need for a formal economic strategy (not a plan or a policy!) and develop one that meets our political, cultural, and economic requirements and constraints.

If we've let U.S. economic strategy evolve by default in the past, we certainly cannot afford to do so in the future. We will have economic challenges (not threats) from competitors (nations and trading blocs) in the future. We will have military challenges that might best be met with a preponderance of economic power. We need to clarify our thinking on how to best accrue and apply economic power and create a process for developing a national economic strategy that will ultimately

include military power as one of its supporting elements rather than the other way around.

The National Economic Council

The National Economic Council (NEC) was created by President Clinton in January 1993. President Clinton emphasized the primacy of economic performance during his campaign and "wanted a staff similar to that of the National Security Council to provide him with economic advice on domestic and international economic issues." Their function (Appendix A) is "to coordinate the economic policy-making process with respect to domestic and international economic issues; to coordinate economic policy advice to the President; to ensure that economic policy decisions and programs are consistent with the President stated goals and to ensure that those goals are being effectively pursued; and to monitor implementation of the President's economic policy agenda."⁵⁶ There is every reason to believe that President Clinton intended the NEC to have equal stature with the NSC, to include some joint membership.⁵⁷

At the outset of the Clinton Administration, the NEC was extremely visible. They were involved in a number of major policy decisions - NAFTA, Health Care, the Clinton economic stimulus package, trade dispute with Japan, defense conversion, the Technology Reinvestment Program, the Clinton deficit-reducing

budget and tax programs. In many respects they functioned as President Clinton expected them to - they evaluated diverse economic policies proposed by the major agencies against a combined standard of political, economic and ideological feasibility. The NEC delivered a number of well-considered, well-developed and broadly-supported (within the administration) policies to the President. That few of these initiatives survived a skeptical, and later Republican, Congress is probably more of an indictment of the political process than of the deliberative and consensual character of the NEC.

Looking past the inevitable ebbs and flows of political power in Washington, is the National Economic Council chartered, empowered and structured in a such a way to permit it to formulate a national economic strategy, coordinate its long-term implementation, and apply its tenets to short-term threats to our national interests? I believe it has the potential to do so, however, in its current form it is not effective for a variety of reasons.

One - The NEC does not see itself as a policy driver, nor do they have a vision or mission statement to support developing strategy.⁵⁸ They see their role as arbitrating interagency disputes on matters with economic implications and measuring proposals against the President's stated goals and political realities. When asked what the Administration's economic

strategy was, a senior NEC staffer replied: "Reduce the deficit; promote free and open trade; invest in infrastructure, education and training; and cut taxes"⁵⁹. Furthermore, the term "national economic strategy" sounds perilously and politically similar to "industrial policy", anathema to conservatives, Republicans and free-market advocates.⁶⁰

Two - The NEC does not debate or analyze all economic policy initiatives. With an authorized staff of 28 (18 professionals, 10 support)⁶¹ they have a limited capacity to research issues and make recommendations. Unless a dispute arises, there doesn't appear to be a requirement that agencies seek NEC involvement. "For example, (the NEC) had no part in the Treasury Department's effort to consolidate federal bank-regulation responsibilities within a single new agency."⁶² Nor did the Labor Department ask the NEC to analyze "sweeping legislation crafted by Congressional Democrats to revamp the 1970 Occupational Safety and Health Act - a package that could impose steep regulatory costs on businesses across the country."⁶³ Labor Secretary Reich explained this away by stating "Other agencies don't have much of a stake. There are few if any budgetary implications; there's no particular expertise outside the Labor Department"⁶⁴

Three - The NEC has focused on matters needing immediate resolution at the expense of longer-range projects. "Three fourths of the NEC's time is devoted to matters needing

resolution within a month. (Robert) Rubin and (W. Bowman) Cutter talked about making the NEC into more of a think tank or an incubator of policy ideas - but decided that the policy coordination function was much more important."⁶⁵ An important consequence of this internal policy is that the NEC appears to have been marginalized in the second half of the Clinton Administration. The sweeping initiatives of the first two years (NAFTA, Health Care, National Service, GATT, TRIP/ARPA, Deficit Reduction) are past; a Republican-controlled Congress poses too great an obstacle for proposing any but the most modest economic initiatives.

Four - The membership of the NEC is overly broad and its decision-analysis process is ad hoc. Over 20 Cabinet members and top aides have a seat at the table. There is no established structure for identifying, analyzing and debating issues.⁶⁶ Interested principals will certainly attend a debate on a given issue; disinterested principals probably wouldn't. The result is that special pleaders, i.e. those agencies with a vested interest in a given policy, are likely to have a disproportionate voice in the analysis-decision debate.⁶⁷

Five - Legislative constipation circumscribes the NEC's influence. "Any effort to centralize economic policy making in the White House has to contend with a maze of laws and regulations that work to decentralize the process."⁶⁸ By law,

the State Department has to approve the sale of certain technologies and products to foreign countries. It would seem that the NEC is best positioned to determine whether or not a given approval/disapproval is in the long-term national interest and whether economic, military or political interests should dominate.

Six - "The NEC is not a lobbying-free zone."⁶⁹ The NEC solicits industry input (through lobbyists) and permits lobbyists and clients access.⁷⁰ This policy is understandable in view of the NEC's focus on policy coordination and small staff. However, if the NEC were to shift its focus to long-term strategy development, it would be inappropriate to give access to those most special of pleaders - individual industries and companies.

The NEC is a logical starting point for developing a national economic strategy. Conceptually, the NEC is equal to the NSC and the head of the NEC is a provisional member of the NSC. Working inside the framework of the NSC and the National Security Act, the NEC could provide the intellectual impetus to reengineer the National Security Strategy. Most likely, the process and product would have to mirror the creation of NSC 68, the landmark reassessment of our strategy to deal with the Soviet Union's military and political expansionism. While NSC 68 considered the global political environment, it did not condition its findings and recommendations on domestic political

constraints. The product was classified and intended for long-term implementation.

Recommendations

At the bureaucratic level, I would suggest several changes. The NSC and NEC should merge, with the NSC as the surviving agency but with two roughly equal (in size) divisions - one military and one economic. This recognizes the political impossibility of replacing the NSC with an ascending NEC. The Secretary of the Treasury and the Chairman, Council of Economic Advisors should become statutory members of the Council and the Principals Committee. There might also be a proper role for the Chairman, Federal Reserve Board as an advisory member. Both economic and military competency should be considerations in selection of the National Security Advisor and Deputy National Security Advisor to the President.

The "economic" members (old NEC) of the Council and the NSC Principal's Committee should remove themselves from any explicit role in arbitrating piecemeal economic initiatives or engaging lobbyists and take the lead in preparing a new NSS. The staff will still have to deal with short-term initiatives, just as the current NSC staff has to deal with military-diplomatic "fires." The focus and efforts of the principals has to be on long-term strategy formulation and assessment.

The nation needs a first cut at "NSC 69", the economic successor to NSC 68, and it will probably have to be classified. We do have strategic options over the long-term. We already have made the most important decisions - a free and democratic form of government⁷¹ and a (relatively) strong commitment to free trade. We will have to make tough decisions over the scope and depth of our international commitments. Must or should we always take the lead in ensuring regional stability in areas where we may not have sufficient power (economic or military) to determine the outcome? Can we afford to advance and protect all of our national interests everywhere in the world against all threats? If so, for how much longer? If we try to maintain our preponderance, we will probably accelerate our decline in overall power.⁷²

Fiscal, incomes, tax, monetary, and regulatory policy must address our deficiencies in investment and savings, as well as our excesses in consumption and borrowing. Paul Kennedy's conclusion, that erosion of the U.S.' relative position was inevitable⁷³, may be correct but both Kennedy, Layne and others believe that active macroeconomic management can at least decelerate that erosion.

Conclusion

Whether as a soldier or as President, in George Washington's mind America's foremost national interests were commercial. He felt the objective of our foreign policy should be to keep us out of any other involvements that did not serve our commercial needs.⁷⁴ Up until the end of WW II, our implied national security strategy was one based on economic power. Inarguably, it was the U.S.' long time focus on economic pursuits, not military power, that enabled it to achieve super-power status in 1946.

The then Soviet Union's military threat to our very survival compelled us to develop and implement a nearly half century long national security strategy based on military might. We prevailed in the Cold War through political resolve and strength of arms made possible only through the strength and success of our economy and economic system. In failing to recognize the primacy of economic power, we have unwittingly expended our leadership, intellect, time and treasure on preserving our gains with military power, at the expense of our economic capacity.

The U.S.' success in promoting democracy and capitalism over totalitarianism and communism has had two unanticipated results - diminished economic strength and diminished military utility. We have concentrated on the military component of national security strategy at the expense of the economic for so long, we are no

longer positioned to cope with the preponderance of threats and opportunities in the evolving commercial world of which we were the principal architects.

Just as we assessed our options in countering the Soviet threat and developed a strategy to overcome them, we must now shift our focus on meeting the economic challenges and opportunities of the next millennia. Our national security is ultimately founded on economic power and it must concentrate on reversing thirty years of relative divestment, stagnation and decline. With the creation of the National Economic Council, the current administration has already taken the first small step towards realigning its focus. We now need the vision and leadership necessary to take the next step - an assessment of the economic power requirements for the future, an evaluation of our economic capabilities against those requirements and a long-term strategy to align the two.

Military power is not an end in itself - it is only a means to the greater end of a secure and growing standard of living for our citizens. Economic power should be writ large among the other elements of national power in that it is both a means and an end. Whether in this or the next administration, there is a need for a clear, detailed and long-term vision on how this nation will compete economically, how it will meet the needs of its citizens, and how it will retain its power and influence in the world.

ENDNOTES

1. "Economic power" refers to macroeconomic power, i.e., the nation's intellectual, financial, technological and industrial capacity to produce an ever increasing quality and quantity of competitive goods and services.
2. David Jablonsky, "National Power", Readings - Vol. 1, Part A, Course 2, War, National Power and Strategy, U.S. Army War College, Academic Year 1996, 180.
3. Ibid., 181
4. Ibid., 186
5. Ibid., 190.
6. Patrick M. Mayerchak, East Asia and the Western Pacific (Ann Arbor, MI: Stryker-Post Publications, 1995), 36-37, 63.
7. Ibid., 36, 63.
8. C.R. Neu and Charles Wolf, The Economic Dimensions of National Security (Rand Corporation, 1994), 334.
9. The World Bank, World Tables:1995 (Baltimore and London: Johns Hopkins University Press, 1995), 22-23.
10. Ibid., 24-25.
11. Paul Kennedy and Robert Gilpin would argue that diffusion of technology, military and non-military, from advanced countries would enable a less advanced/developing country to sustain high growth rates in both sectors at a much lower cost than incurred by the supplier (i.e. the advanced country). Kennedy contends that authoritarian powers (China, Russia) can accelerate this effect by forcibly holding down consumption.
12. Jeffrey Madrick, The End of Affluence: The Causes and Consequences of America's Economic Dilemma (New York: Random House, 1995), Introduction.
13. The World Bank, World Table:1995, 27-29. Using 1993 GDP figures for GDP and earlier averaged growth rates, I calculated the following future GDPs -- China: 2029 - \$17.035T, 2030 - \$18.873T; U.S.: 2029 - \$17.381T, 2030 - \$17.881T.
14. Christopher Layne, "Less is More", The National Interest (Spring 1996), 70.

15. James Petras and Christian Davenport, "Winning the Cold War and U.S. Industrial Decline 1960-1990", Journal of Contemporary Asia, (vol. 25, no. 3, 1995), 333; and Neu, 84.
16. Layne, 70.
17. Petras, 325, 333.
18. Layne, 70.
19. Neu, 84.
20. Kenneth Auchinloss, "Friend or Foe?", Newsweek (1 April 1996), 31.
21. Charles E. Kirkpatrick, An Unknown Future and a Doubtful Present: Writing the Victory Plan of 1941, (Washington, DC: Center of Military History, 1990), 44.
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24. Again and throughout, this term refers to macroeconomic power.
25. Michael D. Ward, David R. Davis, and Corey L. Lofdahl, "A Century of Tradeoffs: Defense and Growth in Japan and the United States", International Studies Quarterly, (vol. 39, no. 1, March 1995), 29, quoting Kennedy.
26. Robert Gilpin, War and Change in World Politics, (Cambridge, England: Cambridge University Press, 1981), Chapter 4.
27. David C. Morrison, "Putting a Price Tag on the Arms Race." The National Journal, (13 May 1995), 1171.
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29. Robert D. Hormats, "The Roots of American Power", Foreign Affairs (vol. 70, no. 3, Summer 1991), 133.
30. Madrick, 81, 105, 109, 151.
31. Harper, 4.
32. Madrick, 81, 98, 105, 109.

33. World Bank, 69.
34. Madrick, 113.
35. World Bank, Table 16, 62-65.
36. Lawrence G. Franko, "Global Corporate Competition II: is the Large American Firm an Endangered Species?", Business Horizons, (vol. 34, no. 6, November-December 1991) 14.
37. Ibid., 14.
38. Petras and Davenport, 319.
39. Ward, 42.
40. Clarke, p. 41.
41. Peter G. Peterson with James K. Sebenius, The Primacy of the Domestic Agenda, Rethinking America's Security: Beyond Cold War to New World Order, (W.W. Norton & Company, 1992), 372.
42. Clarke, 44-45, 47.
43. Steve Glain, "U.S. probably shouldn't count on help from Japan in resolving Taiwan flap", Wall Street Journal, (undated, 1996), International.
44. Paul Lewis, "World Bank Urges Congress to restore aid", New York Times, (10 Oct 1995), 10.
45. Clarke, 40.
46. "Macroeconomic performance" refers to measures of gross economic performance and capacity - level and growth of gross domestic product, level and rate of savings/debt, levels and rates of investment and consumption, employment, income, literacy, capital formation, etc..
47. Dennis S. Ippolito, Blunting the Sword: Budget Policy and the Future of Defense, (Washington, DC: National Defense University, 1994), 141, and Congressional Budget Office, 3.
48. Layne, 69.
49. "Although technology is expensive and not easily created, once it is created it usually diffuses relatively easily... At best states can only slow the diffusion of the technology underlying their military or economic power; they cannot prevent it, especially today in a world in which technology rests on easily accessible scientific knowledge... this is a key element in the international redistribution of power." Gilpin, 177.

50. Gilpin, Chapter 4.
51. Auchinloss, 30.
52. The White House (NSS), 28.
53. The White House (NSS), i.
54. Gilpin, Chapter 4.
55. Dr. Michael Porter, previously cited, has conducted extensive, well-documented studies of business competition at the firm, industry and national level.
56. William J. Clinton, "Executive Order 12835 - Establishment of the National Economic Council." Weekly Compilation of Presidential Documents, (vol. 29, no. 4 February 1, 1993).
57. Jeffrey E. Garten, "Trade and Foreign Policy: Reflections on Economic Diplomacy," Presentation to the International Institute for Strategic Studies, (London, England: 11 July 1995), 361.
58. Dr. Dorothy Robyn, interview by author, 14 February 1996, Washington, DC.
59. Ibid.
60. Ibid.
61. Ibid. Actual staffing is approximately 14, owing to departures since the beginning of the current administration.
62. Paul Starobin, "The Broker", The National Journal, (vol. 25, no. 25, 16 April 1994), 883.
63. Ibid., 883.
64. Ibid., 883.
65. Ibid., 883.
66. Amy Kaslow, "Clinton gives new council wide scope on the economy", The Christian Science Monitor, (4 February 1993), 1.
67. James Tobin and Robert M. Solow, "Clintonomics doesn't need a czar", The New York Times, (10 December 1992), 27.
68. Starobin, 883.
69. Ibid., 882.
70. Robyn.

71. "Of liberty and prosperity," The Economist, (vol. 338, no. 7948 January 13, 1996), 21-23, 37-38.

72. Layne, 72.

73. Kennedy, 534.

74. Garten, 339.

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