

Program Research Project

IT'S THE ECONOMY THAT MATTERS MOST

BY

LIEUTENANT COLONEL RICHARD J. HOLDREN
United States Army

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USAWC CLASS OF 2008

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U.S. Army War College, Carlisle Barracks, PA 17013-5050

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE 07 MAY 2008		2. REPORT TYPE Program Research Paper		3. DATES COVERED 00-00-2007 to 00-00-2008	
4. TITLE AND SUBTITLE It's the Economy that Matters Most				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Richard Holdren				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Army War College ,122 Forbes Ave.,Carlisle,PA,17013-5220				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT see attached					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

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REPORT DOCUMENTATION PAGE

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1. REPORT DATE (DD-MM-YYYY) 07-05-2008			2. REPORT TYPE Program Research Paper		3. DATES COVERED (From - To)	
4. TITLE AND SUBTITLE It's the Economy that Matters Most					5a. CONTRACT NUMBER	
					5b. GRANT NUMBER	
					5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Lieutenant Colonel Richard J. Holdren, USA					5d. PROJECT NUMBER	
					5e. TASK NUMBER	
					5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Army War College 122 Forbes Avenue Carlisle, PA 17013					8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) Col(Ret) Walter J. Wood, USMC Department of Distance Education					10. SPONSOR/MONITOR'S ACRONYM(S)	
					11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION / AVAILABILITY STATEMENT DISTRIBUTION A: UNLIMITED						
13. SUPPLEMENTARY NOTES						
14. ABSTRACT Three sets of security challenges face the U.S. the current challenge of winning the "long war," potential security challenges identified by U.S. strategy documents, and unforeseen or uncertain events which can shock the system. This paper argues the best way to mitigate risk across a broad range of current, identifiable, and uncertain security challenges is to develop a national strategy that focuses on developing an adaptive, responsive economy. An adaptive, responsive economy is one that adjusts and reacts appropriately to changing environmental conditions. Solving the strategic risk equation requires a shift of focus from the military to the economic element of U.S. power. Therefore, the most important element of U.S. security strategy must be to recognize the U.S. economy as its Strategic Center of Gravity and enact policy to enable and protect the U.S. economy. This paper explains why the economy must be an integral element of a future National Security Strategy and offers some domestic and foreign policy recommendations to enable and protect an adaptive, responsive economy.						
15. SUBJECT TERMS Strategic Center of Gravity, Long War						
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON	
a. REPORT UNCLASSIFIED	b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED	UNLIMITED	38	19b. TELEPHONE NUMBER (include area code)	

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by

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ABSTRACT

AUTHOR: Lieutenant Colonel Richard J. Holdren
TITLE: It's the Economy that Matters Most
FORMAT: Program Research Project
DATE: 7 May 2008 WORD COUNT: 5,459 PAGES: 38
KEY TERMS: Strategic Center of Gravity, Long War
CLASSIFICATION: Unclassified

Three sets of security challenges face the U.S. the current challenge of winning the "long war," potential security challenges identified by U.S. strategy documents, and unforeseen or uncertain events which can shock the system. This paper argues the best way to mitigate risk across a broad range of current, identifiable, and uncertain security challenges is to develop a national strategy that focuses on developing an adaptive, responsive economy. An adaptive, responsive economy is one that adjusts and reacts appropriately to changing environmental conditions. Solving the strategic risk equation requires a shift of focus from the military to the economic element of U.S. power. Therefore, the most important element of U.S. security strategy must be to recognize the U.S. economy as its Strategic Center of Gravity and enact policy to enable and protect the U.S. economy. This paper explains why the economy must be an integral element of a future National Security Strategy and offers some domestic and foreign policy recommendations to enable and protect an adaptive, responsive economy.

IT'S THE ECONOMY THAT MATTERS MOST

The Strategic construct of the 2005 National Defense Strategy (NDS) and the 2006 Quadrennial Defense Review (QDR) is reflected on the “Quad Chart” seen below in Figure 1. The NDS and QDR divided U.S. security challenges into 4 quadrants: traditional, irregular, catastrophic and disruptive.¹ The Department of Defense’s QDR states current capabilities best counter traditional threats, but these traditional threats are among the least likely to occur. Therefore, the Department of Defense (DOD) concluded, it should shift its focus away from traditional threats so the U.S. can best counter other, more likely challenges to U.S. security. According to the QDR, DOD must shift its portfolio of capabilities to address irregular, catastrophic and disruptive challenges while sustaining capabilities to address traditional challenges.² The QDR recommends DOD develop future capabilities to mitigate risk across a broad range of security challenges.³

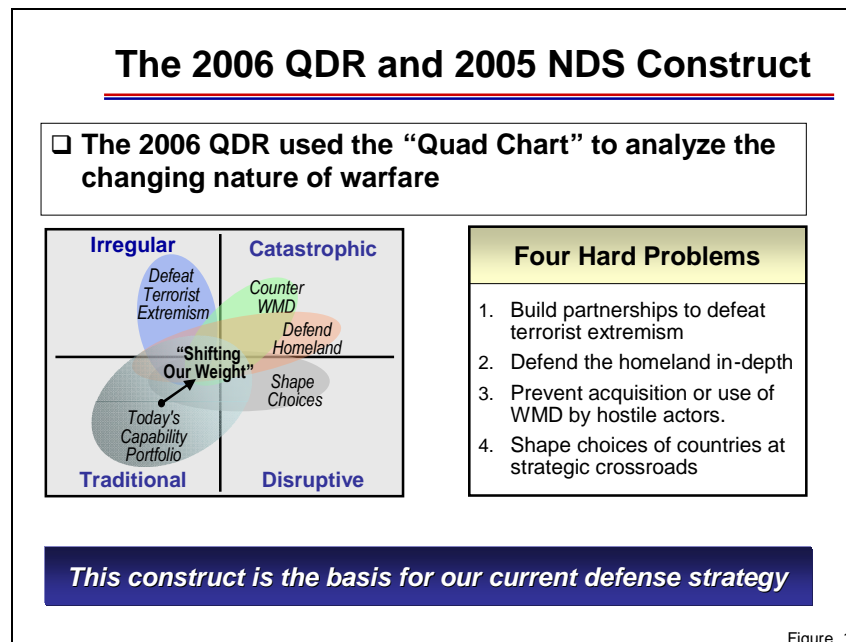


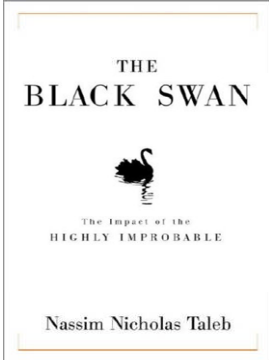
Figure 1: 2006 QDR and 2005 NDS Construct⁴

Additionally, there are other potential strategy constructs that DOD should consider as highlighted in Figure 2. These constructs suggest that future strategy documents should acknowledge uncertainty and increased complexity in the global environment and incorporate ways for the U.S. to adapt better to unforeseen events. A future strategy should identify which security challenges the U.S. should prepare against.

Financially, it's infeasible to develop a capability for every recognized security challenge facing the U.S., let alone develop capabilities to react to unforeseen events. Therefore, the best the U.S. can do is to develop a strategy to mitigate risks posed by potential security challenges, while acknowledging the risks of unforeseen events (a blending of the two constructs).

Other Potential Strategy Constructs

*Cognitive biases create false expectations of predictability.
Acknowledging uncertainty may allow us to adapt better to unforeseen events.*



- ❑ **“Black Swans”**: *large-impact, impossible to predict, and rare event beyond the realm of normal expectations*
 - 9/11, Google, internet bubble
- ❑ **“Outside context problem”**: *Problem outside a given groups experience, with an immediate, ubiquitous and lasting impact upon it*
 - Perry's Black Ships arriving in Japan
- ❑ **“Accelerating change”**: *increase in rate of technological/ cultural/social progress in history (contrast to linear view)*
 - Accumulation of knowledge, access to knowledge and lowering of transactional barriers to knowledge

“But there are also **“unknown unknowns”** — the ones we don't know we don't know.” *Former Secretary of Defense Donald Rumsfeld, Feb 12, 2002.*

Figure 2

Figure 2: Other Potential Strategy Constructs⁵

In addition to these two constructs, one must acknowledge the present situation. Hence, there are three sets of security challenges facing the U.S.: First, the current challenge of winning the “long war” (*current*); second, the potential security challenges, which have been identified by the current U.S. strategy documents (*identifiable*); and third, unforeseen events that can not be predicted which can create a shock to the system (*uncertain*). This paper argues the best way to mitigate risk across a broad range of *current*, *identifiable*, and *uncertain* security challenges is to develop a national strategy that focuses on developing an adaptive, responsive economy.

An adaptive, responsive economy is defined as an economy that adjusts and reacts appropriately to changing environmental conditions.⁶ Solving the strategic risk equation requires all elements of national power, a broad whole-of-government approach which shifts focus from the military element of U.S. power, towards an adaptive, responsive economic element of power. Therefore, the most important element of U.S. security strategy must be to recognize the U.S. economy as its Strategic Center of Gravity and enact policy to enable and protect its economy.⁷ This paper will explain why the economy must be an integral element of a future National Security Strategy and offer some domestic and foreign policy recommendations to enable and protect an adaptive, responsive economy.

Current and Identified Challenges to U.S. National Security

The current security challenge facing the U.S. deals with transnational terrorists, non-state actors and proxies. These represent irregular warfare and asymmetric challenges to national security. Other identified security challenges such as Iran and N. Korea represent a nuclear proliferation challenge. A rising China and India competing

for natural resources and securing those resources represents a near peer competitor challenge. Energy supplies not meeting world demand, coupled with the fact that oil exists in areas that are in the least secure parts of the world represents an energy security challenge. A rising youth bulge in the Middle East and Africa coupled with an aging population in Asia, Europe and the United States represent regional demographic challenges. Competition for scarce resources, globalization and the threat of a pandemic represent their own unique security challenges to the U.S. This is not an all encompassing list, but it's illustrative of the complex nature of the security challenges facing the U.S. and its military. The most pressing security challenge and the one where the priority of U.S. power and resources are currently engaged, is in the "Long War."

The "Long War"

The United States is a nation engaged in a "long war."⁸ The challenge of a "long war" is that it drains the resources of the nation state. The winner of such a strategy can only be the nation state that can endure the costs of the engagement and outlast its enemy's ability to engage in a prolonged war. It becomes a battle of wills in which both belligerents must protect their Strategic Center of Gravity while simultaneously defeating or crippling its opponent's until one yields. The Cold War, which ended with the collapse of the Soviet Union, is an example of a prolonged war in which the U.S. outlasted its enemy's capability to continue its military build-up. The U.S. strategy in this "long war" must be focused on protecting its Strategic Center of Gravity, while it simultaneously denies, deters, dissuades, or defeats all the security challenges facing the U.S. The U.S. Strategic Center of Gravity that must be protected in order to win this

“long war” is the economy. An unexpected consequence of the U.S. current strategy is the enormous expenditure of U.S. resources, which could lead to crippling the U.S. economy. Al Qaeda’s stated policy is to “bleed the U.S. economy” and have the U.S. collapse as a hegemonic power, just like the Soviet Union collapsed in the early 1990’s.⁹

In 1996, Osama Bin Laden declared a defensive Jihad against the United States.¹⁰ "Islam, Bin Laden claims, is being attacked by US-led Christian crusaders and Jews and so each Muslim is bound by his faith to participate in a defensive jihad."¹¹ Bin Laden tells all Muslims it’s their duty to resist the “crusaders” by all means possible. Bin Laden’s argument is based on demonstrating that U.S. policies act against the Muslim world; making it a Muslim’s religious duty to conduct a defensive Jihad against the U.S. According to Michael Scheuer, author of Imperial Hubris:

The six U.S. policies Bin Laden repeatedly refers to as anti-Muslim are:

- U.S. support for Israel that keeps Palestinians in the Israelis’ thrall.
- U.S. and other Western troops on the Arabian Peninsula.
- U.S. occupation of Iraq and Afghanistan.
- U.S. support for Russia, India, and China against their Muslim militants.
- U.S. pressure on Arab energy producers to keep oil prices low.
- U.S. support for apostate, corrupt, and tyrannical Muslim governments.¹²

A key element of Bin Laden’s policy in conducting a defensive Jihad is “to bleed the U.S. economy.”¹³

Bin Laden predicts victory. As evidence, he declares that it was a defensive Jihad which bled the Soviet economy and ultimately led to the defeat of that nation state. Bin Laden’s argument is that if the USSR can fall, so can the U.S.¹⁴ For Al

Qaeda, the key to victory is to maintain a defensive Jihad until the U.S. economy collapses or the U.S. yields by changing its policies towards Muslims. The way to victory, according to Al Qaeda's application of Clausewitzian strategy, is to attack the U.S. Center of Gravity, which it identifies as the U.S. economy.

Al Qaeda is applying an indirect approach in attacking the U.S. economy. It engages the U.S. in both Iraq and Afghanistan. Al Qaeda undermines support for U.S. policies by attacking partners in Europe and the Middle East. Al Qaeda's intent is not to defeat the U.S. military, but rather to keep the U.S. entangled in foreign deployments and force the U.S. into record deficit spending. Al Qaeda's ultimate goal is to change the policies of the U.S. and establish an Islamic caliphate in the Middle East. Al Qaeda recognizes that it doesn't have to act alone to attack the U.S. economy. The transcript of Bin Laden's 2 Nov 2004 message stated "...those who say that Al-Qaeda has won against the administration in the White House or that the administration has lost in this war have not been precise, because when one scrutinizes the results, one cannot say that Al-Qaeda is the sole factor in achieving those spectacular gains."¹⁵ As long as the U.S. continues to deploy forces to Iraq and Afghanistan and accept record deficit spending to pay for it, Al Qaeda believes its plan has a plausible chance for success.¹⁶

An analysis of total U.S. public debt before and after 9/11 indicates that Al Qaeda's goals are being met. A chart of the total U.S. public debt from January 1993 to April 2008 is diagramed below in Figure 3. Notice during the period April 1995 to September 2001 (6 ½ years) total U.S. public debt grew 15.7%. From September 2001 to April 2008 (6 ½ years) total U.S. public debt grew 63.5%. For Al Qaeda to succeed, it

needs the U.S. to continue this trend of record budget deficit spending to the point where confidence in the U.S. dollar collapses.

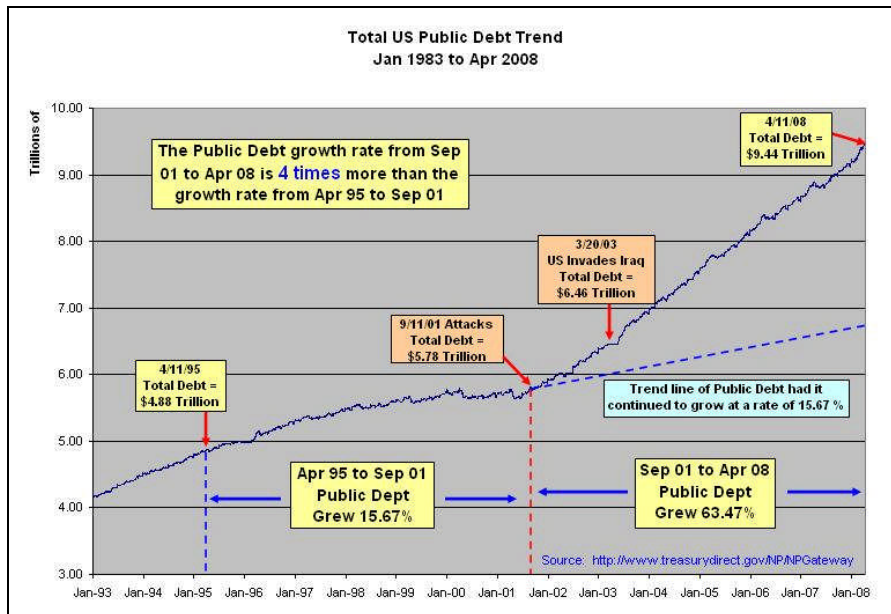


Figure 3: Total U.S. Public Debt¹⁷

According to Bin Laden, the cost-benefit ratio for this “long war” is currently in Al Qaeda’s favor.¹⁸ Al Qaeda can attack what they perceive as the U.S. Center of Gravity while protecting its own.¹⁹ According to Michael Scheuer, a key element of Al Qaeda’s strength paradoxically resides in unilateral American policy. Therefore, the only way to defeat Al Qaeda’s center of gravity is to unilaterally change U.S. policy towards the Muslim world. He points out the strategic savvy of Bin Laden. As long as the U.S. maintains a policy of *status quo* such as U.S. troops in Iraq and Afghanistan, U.S. support to Israel, and U.S. support to its middle-east partners, then America chooses a prolonged war.

Sun Tzu warns us that “there has never been a military prolonging that has brought advantage to the state.”²⁰ According to Sun Tzu principles, a nation state requires a quick and decisive victory. Europe’s long history of wars has demonstrated that prolonged wars weaken both belligerents. The 2006 QDR acknowledges that the U.S is engaged in a “long war” or what Sun Tzu called a “military prolonging.”²¹ Sun Tzu goes on to say that a “military prolonging” only drains the resources of the state and he warns against long entanglements in foreign lands, because they too drain the resources of the state.²² The U.S. must be cautious in its “long war” and protect its Strategic Center of Gravity – the U.S. economy.

While Michael Scheuer is correct that Al Qaeda does not have a Center of Gravity in the traditional sense, he fails to point out a key factor that if the U.S. maintains *status quo* and persists in its policies the logical process by which Al Qaeda must succeed is for the U.S. economy to collapse like the Soviet Union’s. Only in this catastrophic scenario might the U.S. withdraw from the global stage and focus on rebuilding a devastated economy; thus providing Al Qaeda the opportunity to build a caliphate nation state in the Middle East. However, one condition must apply: the collapse of the U.S Economy. Protecting the U.S. economy prevents Al Qaeda from achieving success.

For Al Qaeda to bankrupt the U.S. and cause the economy to collapse, two conditions must occur: First, a lack of confidence in the dollar both home and abroad; second, a collapse of the U.S. financial markets so severe, the U.S. is required to exit the world stage to attend to internal affairs. Al Qaeda can not, by itself achieve this. It would require help. Help could come from a “shock” in the system (similar or worse

than 9/11). Or it can be triggered from within the U.S. by record deficit spending and hyper inflation. The benefit of an adaptive, responsive economy based on free market principles is that the economy will naturally adjust away from economic activities that lose money in favor of economic activities that are profitable. If the economy makes those adjustments, it becomes even more difficult for an adversary to develop a method to bankrupt it. A national policy that supports an adaptive, responsive economy mitigates the risk of economic collapse by allowing the natural hand of commerce to decide where profit can be made. An essential part of a new National Security Strategy should focus on maintaining an adaptive, responsive economy as a cornerstone of Homeland Defense.

Building a New U.S. National Strategy

The first step in winning the “long war” is not to defeat Al Qaeda or violent extremism but to ensure the U.S. economy remains viable and strong. The U.S. must realize there will always be places where terrorism, radical ideologies and violent extremism exist. The first step is to lay out a strategic plan for America that will allow her to deter, deny, dissuade or defeat all the security challenges she might face (*current, identifiable, and uncertain*). If the U.S. only focuses on the *current* security challenge of defeating transnational terrorists, it takes a greater risk that either an *identified* or *uncertain* security challenge could create a shock in the system that could create a sudden collapse of the economy, forcing the U.S. to withdraw from the global stage. Therefore, U.S. policy and strategic planning should focus on protecting its Strategic Center of Gravity: the U.S. economy.

The U.S. must pick and choose how it will engage in this “long war” and by what method. The U.S. military might not always be the best approach to deter, deny, dissuade or defeat a particular security challenge. Diplomatic, Informational and Economic elements of power might be a better allocation of scarce resources and the preferred option. The QDR emphasizes the use of an “indirect approach” to address the nation’s security challenges.²³ Diplomatic, Informational and Economic elements of power are often the best ways to apply an indirect approach; sometimes referred to as a whole-of-government approach. Conventional wisdom holds: the advantage of an indirect approach is that it is less antagonizing and less expensive.²⁴ However, it also holds: the disadvantage is that it will take more time.

So, while the QDR lays out the capabilities required to win the “long war,” one must recognize the key enabler that develops those capabilities: the U.S. economy. It’s the U.S. economy’s ability to rapidly adapt to change and constantly re-invent itself that will not only win the “long war” but give her the ability to react to other identifiable challenges. It’s the economy that matters most and must be protected first. A cornerstone of U.S. policy must be protecting the rights and freedoms that allow the economy to rapidly adapt to change and prosper. Before one can develop a strategy or economic policy that both protects the U.S. economy and enables her to deter, deny, dissuade or defeat the future security challenges against her, one must understand what builds a solid foundation for an economy.

Building the Foundation for an Adaptive, Responsive Economy

The basic principles of economic freedom coupled with a strong education system that fosters the ideas of economic freedoms build a solid foundation for an

adaptive, responsive economy. They are America's best option for protecting her Strategic Center of Gravity, her economy. Principles of economic freedom are based on the rule of law, property rights, enforced contracts, limited government intervention, and access to financial markets.²⁵ Developing and maintaining an educated, highly skilled workforce that is responsive and ready to exploit new opportunities is required for the economy to adapt to a changing, competitive marketplace.

The U.S. economy is founded under the principles of a Free Market enforced by the Rule of Law. Individual freedoms which include the right to own property and the right to profit are essential. They allow individuals to act in "their own best interest." The rule of law establishes the recognition of the importance of enforcement of property rights and contracts. This standard of rules allows commerce to occur freely and profitably for all parties involved. Protecting individual freedoms support a strong and vibrant economy. While the government must enforce individual rights they must do so in a limited role, absent of government coercion or constraint.²⁶

The role of limited government is to ensure government fiscal responsibility and to allow business to operate freely and with minimum bureaucratic impediments.²⁷ Lawmakers should be cautious of accumulating debt. When government accumulates debt, it is taking money away from the economy. U.S. lawmakers must be cautious when making laws to "protect" U.S. citizens, because those laws might have unintended consequence of limiting the competitiveness of U.S. businesses. Bureaucratic impediments limit an economy's ability to react to the environment and create profitable alternatives. Lawmakers must be cautious when enacting laws that increase regulation. An unintended effect of increased regulation is that it will create an impediment and

inefficiencies in the marketplace and limit the economy's ability to react to a changing environment.²⁸ While building a fence on the U.S. southern border may at first appear to be a good strategy for security, it too impedes development and progress. U.S. lawmakers must be cautious in the approach they take; their actions could unintentionally weaken the U.S. economy which indirectly supports Al Qaeda's strategy.

Adam Smith in his book the Wealth of Nations argued three basic principles in creating wealth for a nation: the pursuit of self-interest, division of labor and freedom of trade.²⁹ Adam Smith believed that if government limited its role and served mostly to enforce contracts and property rights the economy will move and prosper as if by an "invisible hand."³⁰ It was his original ideas which formally identified the concept of a free market system. Adam Smith's three basic principles are the fundamental building blocks for an adaptive, responsive economy. No other system, since his work in 1776, has proven to work better in increasing the wealth of a nation and securing that nation from the security challenges it must face.

The cold war allowed two competing ideas, Capitalism and Communism, to compete openly to determine which economic system created the best prosperity and security for a nation state and its people. The experiment was conclusive. Capitalism and free markets are better systems. However, while Capitalism and Free Markets have proven to be the best approach to building a nation state's wealth, it is not a perfect system. Capitalism too, has its own set of flaws – fear and greed – as witnessed by the Great Depression in the 1930's. Greed in the financial stock market coupled with over leveraged debt succumbed to fear when trust in the financial system created a

financial panic. Another flaw of Capitalism that fuels protectionist, populist and socialist agendas is the concept of Creative Destruction.³¹

An Argument against an Adaptive, Responsive Economy: Creative Destruction

An argument against an adaptive, responsive economy would be to protect U.S. citizens from the destructive power of the business cycles as seen through the process of creative destruction. Creative destruction is where companies that once revolutionized and dominated industries – see their profits fall and their dominance vanish as rivals launched improved designs or cut manufacturing costs. This results in reduced profits and forces lay-offs of high paying jobs. Layoffs of workers with obsolete working skills become victims of this process. Creative destruction creates severe hardship in the short term. It is often best seen through the eyes of technology where cassette tapes replaced the 8-track, only to be replaced by the compact disks which are now being replaced by MP3 players. Those employed by the 8-track industry lost their jobs and are now replaced by new workers in the MP3 industry.

Creative Destruction means change; it is where less profitable activities are replaced by more profitable ones. Something that is profitable today could be outdated and irrelevant tomorrow. Change is something humans naturally resist and fight. Creative Destruction also means that capitalism will always undergo business cycles; periods of growth followed by periods of recessions.

An argument against capitalism is an argument for ending the business cycle. Protectionist, Populist and Socialist approaches would all argue that it is government's responsibility to provide for the people by injecting stimulus, limiting competition or providing safe and secure jobs that aren't prone to the business cycle.³² Advocates for

a centralized government approach support more social programs and government involvement. This approach, while it might eliminate the business cycle; it creates, instead, scarcity: a reduction in real services and long lines to access those services.³³

Mitigating Creative Destruction

The best way to mitigate the flaws of capitalism is by developing a more robust education system. The U.S. requires a more adaptive, responsive education system that produces a well educated, skilled labor pool for the economy to exploit and use to its best advantage. It will make the U.S. more competitive in the open marketplace. It will also make the U.S. more capable to adapt to an ever changing marketplace and security environment. That means accepting the flaws of “creative destruction” by mitigating it with a highly adaptive, educated and skilled labor source.

Building a solid foundation based on economic freedom supported by an education system designed to create a highly skilled labor pool not only creates a strong economy, but gives America a decisive advantage to adapt to a changing security environment. It also provides the workforce necessary to compete in the marketplace and contributes to an adaptive, responsive economy. An adaptive, responsive economy is the best way to mitigate the risks posed by the *current, identifiable and uncertain* security challenges because America requires a long term economic strategy which enables it to counter the security challenges she must face in the future: a strategy that supports national policy.

National Policy for an Adaptive, Responsive Economy

When developing policy one must keep the founding principles of a strong economy, access to financial markets, rule of law, property rights, education and limited

government in mind.³⁴ These basic principles allow an economy to prosper and enrich not only the nation state, but the people living in the nation state. A strategy that protects the U.S. economy should be founded in these principles. When developing a strategy for policy makers, the strategy itself must contain options: options that effect both Domestic and Foreign Policy.³⁵

Domestic Policy Recommendations

Enabling an adaptive, responsive economy would require enacting a few domestic policy themes. First, the U.S. must focus on developing an education system that goes beyond high school and focuses on developing a highly skilled labor force. The economy requires a skilled labor force that can rapidly retool, re-learn and adapt to change. That requires a labor force that consistently re-educates itself and adapts to change. If the U.S. can not produce that labor force internally it must look to the global economy instead. Alan Greenspan in his book, The Age of Turbulence, stated, "For Americans, opening our borders to the world's skilled workforce and education reform must be high on the policy agenda."³⁶

Second, American business needs to invest in infrastructure and ensure the internal flow of goods and services. A modernized infrastructure gives U.S. corporations a competitive advantage in distributing goods across an entire continent. Third the U.S. government must protect individual freedoms and hold people responsible for their actions while at the same time play a limited role in the day to day management of the economy. Protecting individual freedoms allows people to act in their own best interest and profit from those activities. The government must also play a role in making sure there is a fair and financially sound marketplace.

Fourth, it should rely less on social programs and promote responsibility and freedom instead. Social programs and growing entitlements are not affordable in the long term. Alan Greenspan in his book, The Age of Turbulence, stated, "There are enormous obstacles facing us in the decades ahead...So too must be finding a solution to our looming Medicare crisis."³⁷ Promoting responsibility and freedom will shift the burden on the individual to act in one's own best interest thus contributing to the economy.

Fifth, the U.S. government must adjust its spending habits. The first step in achieving better government spending trends would be to re-enact the budget enforcement act of 1990 which imposed on Congress discretionary caps and pay-as-you-go rules that required new spending increases or tax cuts to be offset elsewhere in the budget.³⁸ That law expired 30 Sept 2002. Lawmakers must re-enact it. Congress has lost control of the purse and without financial constraint, the nation is imperiled. The U.S. requires a well-reasoned approach to address the *current* and *identifiable* security challenges that doesn't overreach her strategic resources.

Sixth, the U.S. must stop its habit of increasing public debt faster than the economy's GDP. Continuing to pass legislation that increases entitlements without limits, cripples the economy and America's ability to adapt and react to future security challenges.

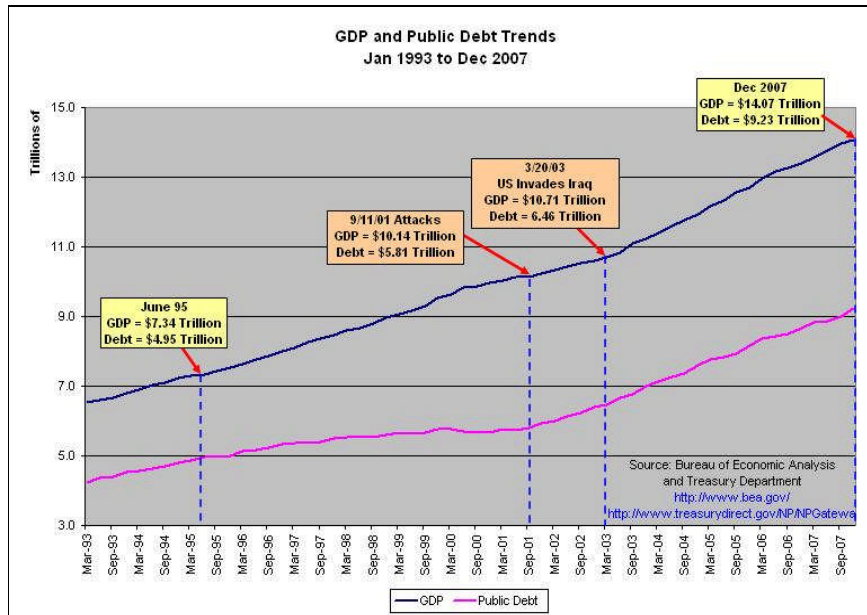


Figure 4: GDP and Total Public Debt³⁹

Economic Growth measured by U.S. Gross Domestic Product (GDP) and compared to U.S. total public debt is highlighted in Figure 4. From the period June 1995 to April 2008 the GDP grew at a steady pace. Now compare both the GDP and Total Public debt trend lines. From June 1995 to September 2001 total public debt grew at a slower rate than GDP and the trend lines diverge.⁴⁰ However, after September 2001 total public debt grew much faster than GDP and the trend lines converge.⁴¹

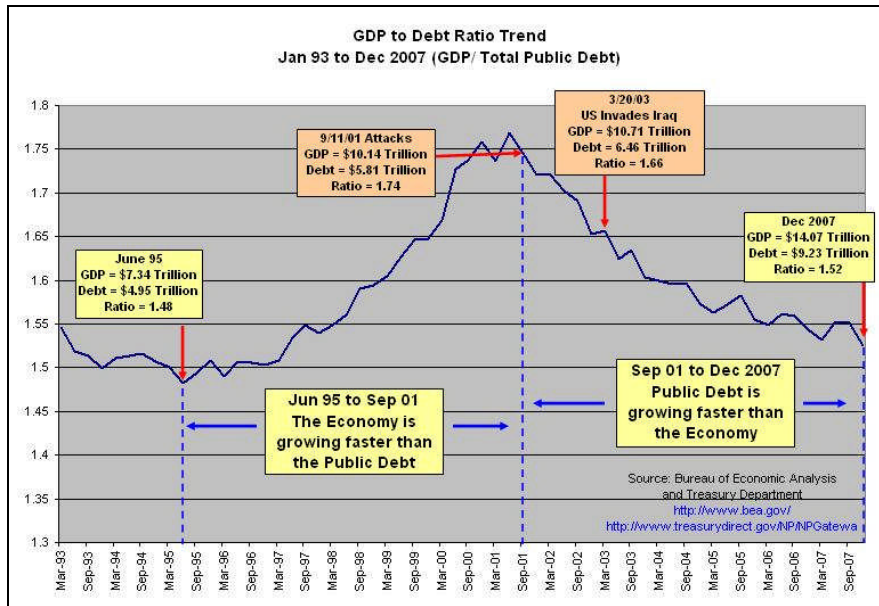


Figure 5: GDP to Debt Ratio⁴²

This effect is pictured even more dramatically in Figure 5. In this chart, GDP is divided by total public debt which yields the GDP to debt ratio. The 6 ¼ years prior to 9/11, U.S. economic wealth grew in real terms. The 6 ¼ years after 9/11, U.S. economic wealth declined in real terms. Economically, the attacks of 9/11 occurred at the exact right moment when the economy could absorb the shock of the 9/11 attacks because the U.S. had access to the financial markets and was able to maintain liquidity in the system to allow the economy to adapt.

Maintain the Soundness of US Financial Markets

Finally, to best enable the U.S. to react to an *uncertain* event, the U.S. must have access to the global financial markets. A key resource for the U.S. is access to global financial markets which gives her the ability to borrow money when required. However, she must be careful to not overstretch the borrowing to the point where access

becomes restricted. Having access to the financial markets facilitates an adaptive, responsive economy. America must restrain herself from the temptation of growing budget deficits so she can retain the flexibility of going to the financial markets if a shock to the system occurs. Having access to the financial markets enables the U.S. the ability to survive the shock of an *unforeseen* event (like 9/11). An adaptive, responsive economy enables the U.S. to then react and defeat that threat.

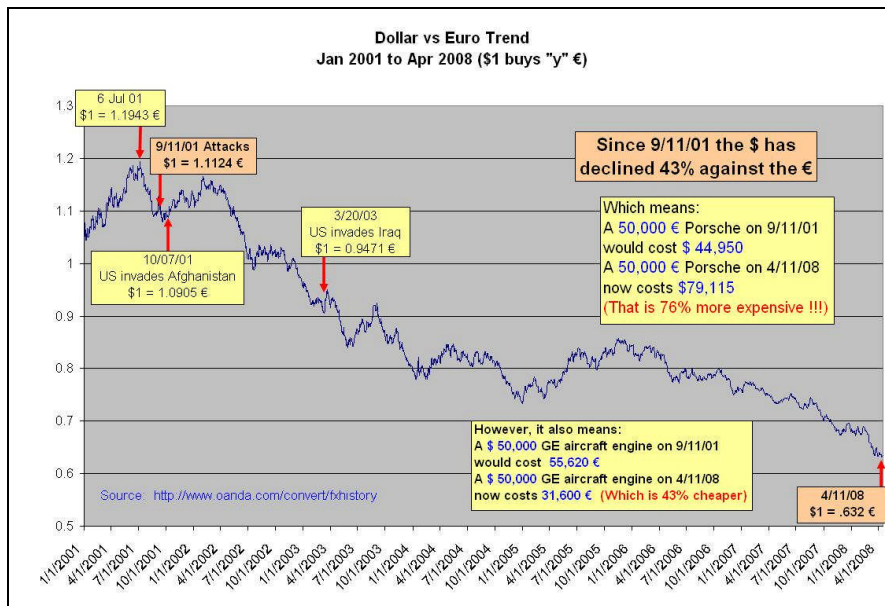


Figure 6: Dollar vs. Euro⁴³

The U.S. Federal Bank must be in a position to provide liquidity at a time when the economy needs it most. That requires confidence in the Dollar and a government which keeps its liabilities (budget deficits) in check. The soundness of the Dollar in relation to other commodities is highlighted in Figures 6, 7, 8 and 9. Figure 6 compares the dollar to the Euro; Figure 7 compares the price of oil; Figure 8 compares the price of gold; and finally, Figure 9 compares the price of flour.

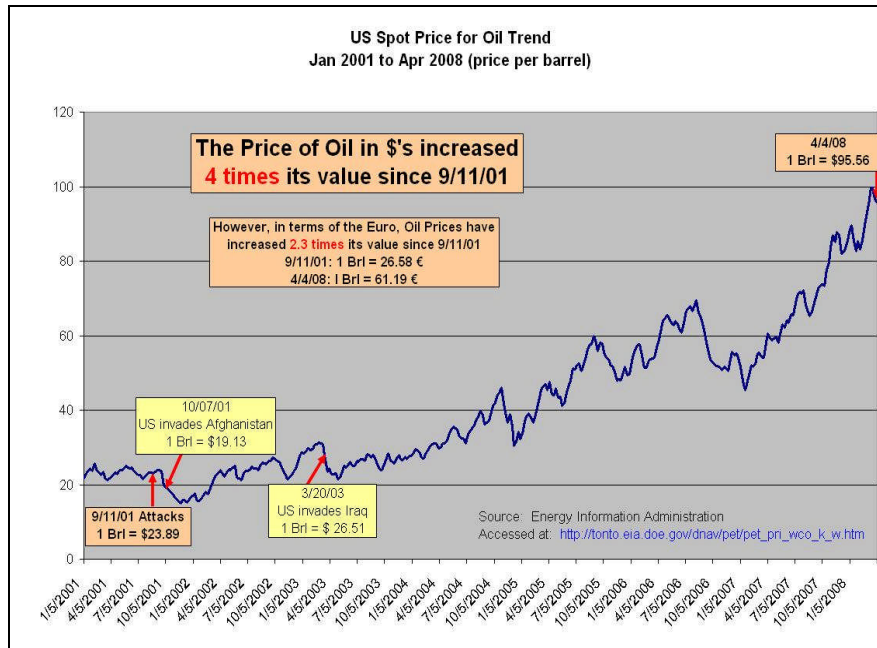


Figure 7: U.S. Spot price for Oil⁴⁴

Since the 9/11 attacks, the Dollar has declined 43% against the Euro. Oil has increased 4 times, and gold 3.23 times, these all show the inflationary pressure against the Dollar. Inflationary pressure is beginning to show in food prices as well. The 14 month period from Jan 07 – Feb 08 flour has jumped 31.5%. However, if you convert the Dollar to Euro you can see the price increases of oil, gold, and flour are not as dramatic.⁴⁵

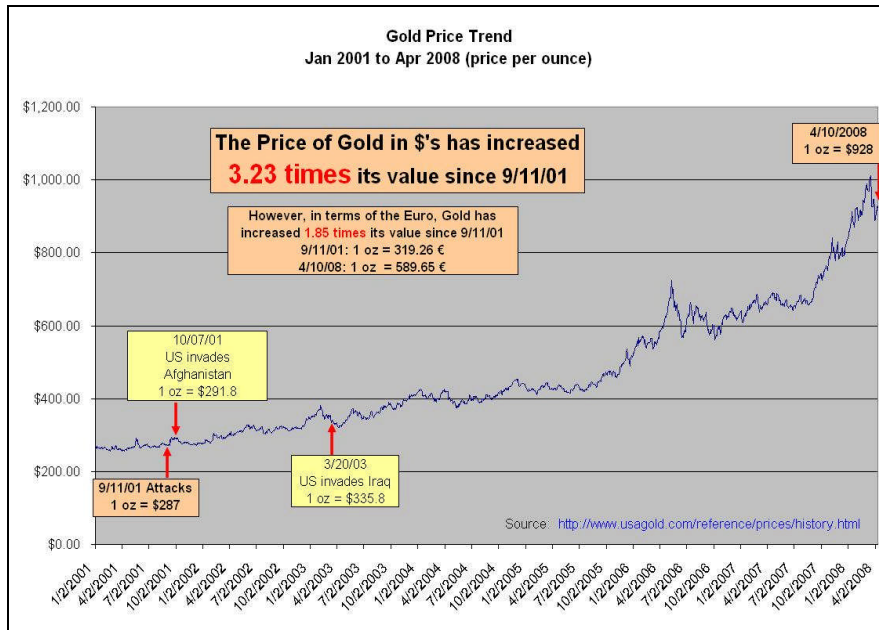


Figure 8: Gold Price⁴⁶

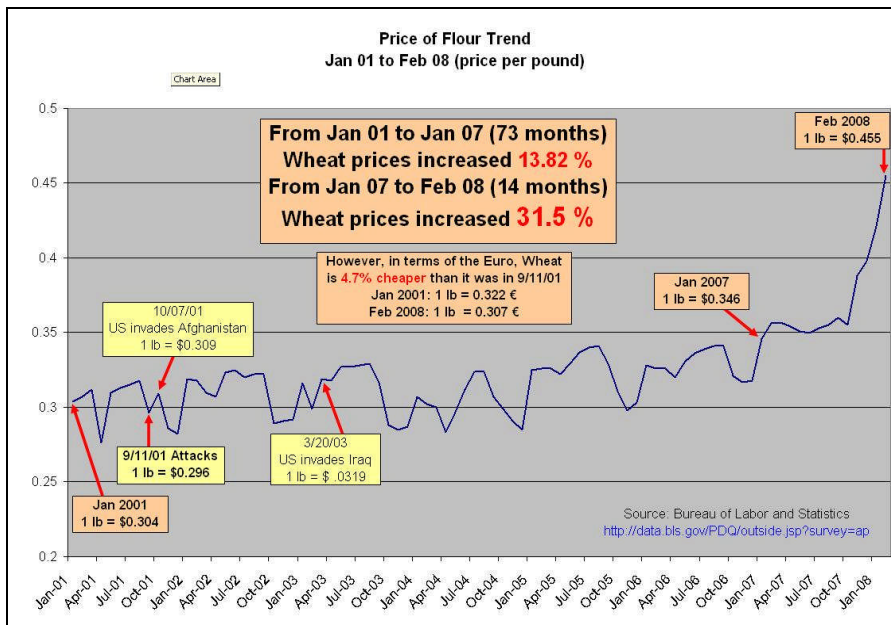


Figure 9: Flour Price⁴⁷

In fact, in terms of the Euro, the Feb 08 flour prices are still 4.7% lower than the January 2001 price. If you're a foreign government and you have a choice to peg your currency

in Euros or Dollars, the current trends suggest, a nation would be better off pegging its currency to the Euro. This is why more and more foreign nations are adopting a “basket of currency” of both Euros and Dollars to back their own currency. If foreign investors lose confidence in the Dollar, America’s ability to borrow in the open market collapses. The U.S. must reverse its trend of growing budget deficits faster than the economy’s GDP to regain confidence in the Dollar.⁴⁸

Economic Role in Foreign Policy

While America cannot immediately pull out of Iraq or Afghanistan, because she must hold to the commitments she has currently made. America can move towards a policy of non-intervention as stated by John Quincy Adams in his speech on foreign policy in 1821, “But she goes not abroad, in search of monsters to destroy.”⁴⁹ As part of a policy of non-intervention, America should promote free trade and economic freedoms abroad.⁵⁰ America should continue to promote and secure global markets, ensuring the free flow of goods and services. Michael Scheuer echoes this point in his book, Imperial Hubris, when he recommends, “We must unflinchingly let foreign dragons devour each other without expending American lives, treasure, and self-respect on an endless series of fool’s errands.”⁵¹

The Importance of Economic Connectivity

The most important thing America should consider doing in order to multiply her natural advantages economically and to counter the limited influence of Islamic extremism is to promote economic connectivity amongst all nation states. She does not need to do this by promoting democracy; rather America should allow democracy to

occur at its own natural pace. America does not need to do this by force. Thomas P. M. Barnett in his book, Blue Print for Action, declares:

So not only is *speed* not of the essence, neither is any particular political format. *Connectivity is of the essence*, because connectivity unlocks the society's potential for growth and development, and it is that growth and development that eventually dictate political reform in the direction of pluralism. Democracy is not a means but an end.⁵²

To achieve economic connectivity, America should build partner nation capacity that promotes connectivity in the marketplace. A proper role for DOD in this new strategy would be to build capacity for that nation to secure its own borders first and then develop other elements of security with the ultimate goal of exporting security beyond its borders. America should allow the invisible hand of commerce to connect the world and allow it to move at its own pace. Because Capitalism invokes change, and often times rapid and violent change, America must recognize the path will be fraught with danger and disappointment. America must stand strong to the challenge, adapt to the changing environment and encourage others to do the same.

Conclusion

For America to best adapt to the *current, identifiable and uncertain* security challenges she must face, she must first focus on protecting her Strategic Center of Gravity, the U.S. economy. She must first maintain policies within her own borders that promote economic freedoms. The U.S. must develop a robust education system which enables labor to adjust to a changing marketplace. She should limit the role of government, especially government spending, and reduce the burden of taxes to keep

America competitive in a global marketplace. She must be cautious of hindering economic freedoms in the name of security, social programs, or costly entitlements. She must reverse the trend where total public debt grows faster than her economy's GDP and ensure she retains access to the global financial markets. Second, she must promote economic freedoms abroad. She must encourage a global marketplace based on free market principles. She must promote connectivity amongst all nation states by building partner nation capabilities which promote connectivity. America must take the slow path of gentle persuasion and allow the invisible hand of commerce to promote freedoms and democracy abroad. She must be patient not to force it, but to allow it to take its natural course. This path is a path that will take many generations and perhaps centuries to achieve, but will place America on a solid foundation to meet her future security challenges.

By doing this, the economy will be best capable to adapt to an ever changing security environment or unforeseen event. An adaptive, responsive economy will best mitigate the risk across a broad range of *current, identifiable and uncertain* security challenges. Policymakers must understand the source of America's strength; her ability to project power and provide security to her borders lies within her economy. Therefore, a critical element of the future U.S. National Security Strategy must be to recognize the U.S. economy as a Strategic Center of Gravity and enact policy to protect it. It's the economy that matters most.

Endnotes

¹ The definitions of the four security challenges described in the 2005 *National Defense strategy (NDS)* are: **Traditional:** challenges posed by states employing recognized military capabilities and forces in well understood forms of military competition and conflict. **Irregular:** challenges from those seeking to erode American influence and power by employing

unconventional or irregular methods. **Catastrophic:** challenges from adversaries seeking to paralyze American leadership and power by employing WMD or WMD-like effects in surprise attacks on critical, symbolic, or other high-value targets. **Disruptive:** challenges from adversaries who seek to develop and use breakthrough capabilities to negate current U.S. military advantages in key operational domains.

² Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 19. The QDR states that the National Defense Strategy of March 2005 “acknowledges that although the U.S. military maintains considerable advantages in traditional forms of warfare, this realm is not the only, or even the most likely, one which adversaries will challenge the United States during the period immediately ahead. Enemies are more likely to pose asymmetric threats, including irregular, catastrophic and disruptive challenges.” The QDR, on same page states, “As the diagram shows, the Department is shifting its portfolio of capabilities to address irregular, catastrophic, and disruptive challenges while sustaining capabilities to address traditional challenges.”

³ Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 3. The QDR states, “This strategy calls for continuing to reorient the Department’s capabilities to address a wider range of challenges. Although the U.S. military forces maintain their predominance in traditional warfare, they must also be improved to address the non-traditional, asymmetric challenges of this new century.”

⁴ “Defense Policy Implications of Global Technology Trends” briefing slides, 11 February 2008. This slide summarizes the strategy construct of the 2005 National Defense Strategy and the 2006 Quadrennial Defense Review.

⁵ “Defense Policy Implications of Global Technology Trends” briefing slides, 11 February 2008. This slide summarizes other potential strategy constructs DOD should consider.

⁶ Merriam Webster Dictionary defines *Adaption* as 2: adjustment to environmental conditions. It defines *Responsive* as 2 : quick to respond or react appropriately. An *adaptive, responsive economy* is therefore defined as an economy that adjusts and reacts appropriately to changing environmental conditions.

⁷ Carl Von Clausewitz, On War, edited and translated by Michael Howard and Peter Paret (Princeton, NJ: Princeton University Press, 1976), 595-6. Clausewitz discussed the term “Center of Gravity as, “Out of the characteristics a certain **center of gravity** develops, the hub of all power and movement, on which everything depends. That is the point against which all our energies should be directed.” From this one can infer that to Clausewitz, a Center of Gravity is the heart of the nation, its base of power, its energy and strength: its focal point. For the United States, its base of power and source of strength is the U.S. economy, making it, her Strategic Center of Gravity.

⁸ Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), v. The first sentence of the preface for the 2006 QDR states, “The United States is a nation engaged in what will be a long war.”

⁹ A transcript of Bin Laden’s 1 November 2004 taped message aired by Al Jazeera states, “This is in addition to our having experience in using guerrilla warfare and the war of attrition to fight tyrannical superpowers, as we, alongside the mujahidin, bled Russia for 10 years, until it

went bankrupt and was forced to withdraw in defeat. All Praise is due to Allah. **So we are continuing this policy in bleeding America to the point of bankruptcy."**

¹⁰ Abdullah Yusuf Azzam, Defense of the Muslim Lands: The First Obligation after Iman available from: http://www.religioscope.com/info/doc/jihad/azzam_defence_2_intro.htm; Internet, accessed 28 November 2007. Sheikh Abdullah Azzam explains in this chapter the concept of a Defensive Jihad. To summarize, a Defensive Jihad, according to Islamic tradition, requires that when Muslims are attacked, it becomes obligatory for all Muslims to defend against the attack and to participate in the jihad by providing resistance and supporting Muslim fighters. Muslims consider armed struggle against foreign occupation or oppression by domestic government to be worthy of defensive jihad. In fact, the Koran requires military defense of the besieged Islamic community. If a group of Muslims come under attack by non-Muslims, then no formal declaration of war is required and the Muslims are to defend themselves against such attack. Thus, a defensive jihad can occur in the absence of a Caliph and does not require a formal declaration from a religious authority.

¹¹ Michael Scheuer, Imperial Hubris (Washington, DC: Brassey's Inc., 2004), 209 - 210. Michael Scheuer also writes, "Bin Laden is calling on other Muslims to similarly identify the threat and to do their duty to God and their brethren. It is the attack by infidels on Muslims that triggers the jihad, not the call or directive of a suitably educated leader. Bin Laden is waging a defensive jihad against the United States; he is inciting others to join, not because he orders them to, but because God has ordered them to do so in what He revealed in the Koran. Bin Laden's genius lies not in his call for a defensive jihad, but in constructing an articulate a consistent, convincing case that an attack on Islam is under way and is being led and directed by America. In turn, as his argument is increasingly accepted by Muslims, each individual faces a fateful decision, one that will decide where he or she spends eternity. If bin Laden's argument is accepted, he or she must take up arms or otherwise support the mujahedin, or face eternal damnation for not performing the duties mandated by God." (pp 7-8)

¹² Michael Scheuer, Imperial Hubris (Washington, DC: Brassey's Inc., 2004), 241. Michael Scheuer also writes that Bin Laden's 9/11 attacks "are meant to advance Bin Laden's clear, focused, limited., and widely popular foreign-policy goals: the end of U.S. aid to Israel and the ultimate elimination of that state; the removal of the U.S. and western forces from the Arabian Peninsula; the removal of U.S. and Western military forces from Iraq, Afghanistan, and other Muslim lands; the end of U.S. support for the oppression of Muslims by Russia, China, and India; the end of U.S. protection for oppressive, apostate Muslim regimes in Saudi Arabia: Kuwait, Egypt, Jordan, etc.; and the conversion of the Muslim world's energy resources and their sale at higher prices. To secure these goals, Bin Laden will make stronger attacks in the United States - complemented elsewhere by attacks by Al Qaeda and other Islamist groups allied with or unconnected to it - to try to destroy America's resolve to maintain the policies that maintain Israel, apostate Muslim rulers, infidel garrisons in the Prophet's birthplace, and low oil prices for the U.S. consumers. Bin Laden is out to drastically alter U.S. and Western policies toward the Islamic world, not necessarily to destroy America, much less its freedoms and liberties. He is a practical warrior not an apocalyptic terrorist in search of Armageddon. Should U.S. policies not change, the war between America and the Islamists will go on for the foreseeable future. No one can predict how much damage will be caused by America's blind adherence to failed and counterproductive policies, or by the lack of moral courage now visible in the thirty-plus-year failure of U.S. politicians to review Middle East policy and move America to energy sufficiency and alternative fuels." (pp. xviii - xix).

¹³ Ibid (see endnote 9) and Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 21. The QDR also acknowledges Al Qaeda's approach, "In the 1990s, they (Al Qaeda) shifted toward attacking their 'far enemy': the United States and other western powers – in an attempt to change the character of the conflict, galvanize pan-Islamic support, **bleed the United States** (as the Mujahideen had done to the Soviet Union in Afghanistan during the 1980s) and weaken Western support for Middle Eastern governments."

¹⁴ Ibid (see endnotes 9 and 13).

¹⁵ Osama Bin Laden, "Full Transcript of bin Ladin's speech" 2 November 2004, Al Jazeera, available from <http://english.aljazeera.net/English/archive/archive?ArchiveId=7403>; Internet; accessed 20 September 2007.

¹⁶ Osama Bin Laden, Transcript of Osama Bin Laden message, 7 September 2007; available from: http://msnbcmedia.msn.com/i/msnbc/sections/news/070907_bin_laden_transcript.pdf ; Internet; accessed 20 September 2007. In this transcript Osama Bin Laden states,

"And before concluding, I tell you: there has been an increase in the thinkers who study events and happenings, and on the basis of their study, they have declared the approach of the collapse of the American Empire.

Among them is the European thinker who anticipated the fall of the Soviet Union, which indeed fell. And it would benefit you to read what he wrote about what comes after the empire in regard to the United States of America. I also want to bring your attention that among the greatest reasons for the collapse of the Soviet Union was their being afflicted with their leader Brezhnev, who was overtaken by pride and arrogance and refused to look at the facts on the ground. From the first year of the Afghanistan invasion, reports indicated that the Russians were losing the war, but he refused to acknowledge this, lest it go down in his personal history as a defeat, even though refusal to acknowledge defeat not only doesn't do anything to change the facts for thinking people, but also exacerbates the problem and increases the losses. And how similar is your position today to their position approximately two decades ago. The mistakes of Brezhnev are being repeated by Bush, who - when asked about the date of his withdrawing of forces from Iraq - said in effect that the withdrawal will not be during his reign, but rather, during the reign of the one who succeeds him. And the significance of these words is not hidden."

¹⁷ Data captured from the Treasury Direct website database; available from <http://www.treasurydirect.gov/NP/NPGateway>; accessed 18 April 2008. This chart highlights how dramatically the U.S. Total Public debt has grown. For the 6 ½ years prior to 9/11 the total public debt grew 15.67%. For the 6 ½ years after 9/11 the total public debt grew 63.47%. That growth is 4 times larger! Had the debt grown at its previous rate the total public debt would be well below \$7 Trillion, but instead it's at \$9.44 Trillion and growing.

¹⁸ Osama Bin Laden, "Full Transcript of bin Ladin's speech" 2 November 2004, Al Jazeera, available from: <http://english.aljazeera.net/English/archive/archive?ArchiveId=7403>; Internet; accessed 20 September 2007. In his 2 Nov 2004 message, Bin Laden claimed:

"Lectures at the Royal Institute of International Affairs... pointed out that... Al-Qaida spent \$500,000 on the event (9/11), while America, in the incident and its aftermath, lost - according to the lowest estimate - more than \$500 billion; meaning that every dollar of Al-Qaida defeated a million dollars by the permission of Allah, besides the loss of a huge number of jobs."

¹⁹ Michael Scheuer, Imperial Hubris (Washington, DC: Brassey's Inc., 2004), 263. Michael Scheuer points out, "Bin Laden has no center of gravity in the traditional sense - no economy, no cities, and no homeland, no power grids, no regular military, etc. Bin Laden's center of gravity, rather, lies in the list of current U.S. policies toward the Muslim world because that status quo enrages Muslims around the globe -- no matter their view of Al Qaeda's martial action -- and gives Bin Laden's efforts to instigate a worldwide anti-U.S. defensive jihad virtually unlimited room for growth."

²⁰ Sun Tzu, The Art of War, The Demma Translation, (Boston, MA, Shambhala Publications, 2001), 8.

²¹ Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 9. The QDR states, "Since 2001 the U.S. military has been continuously at war, but fighting a conflict that is markedly different from wars of the past. The enemies we face are not nation-states but rather dispersed non-state networks." The QDR goes on to say, "... this struggle cannot be won by military force alone, or even principally. And it is a struggle that may last for some years to come."

²² Ibid (see endnote 20).

²³ Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 11. The QDR states, "...the United States must often take an indirect approach, building up and working with others. This indirect approach seeks to unveil its adversaries physically and psychologically, rather than attacking them where they are strongest or in the manner they expect to be attacked. Taking the "line of least resistance" unbalances the enemy physically, exploiting subtle vulnerabilities and perceived weaknesses. Exploiting the "line of least expectation" unbalances the enemy psychologically, setting the conditions for the enemy's subsequent defeat."

²⁴ Donald H. Rumsfeld, Quadrennial Defense Review Report, (Washington DC, Department of Defense, 6 February 2006), 11. The QDR highlights, "One historical example that illustrates both concepts comes from the Arab Revolt in 1917 in a distant theater of the First World War, when British Colonel T. E. Lawrence and a group of lightly armed Bedouin tribesmen seized the Ottoman port city of Aqaba by attacking from the undefended desert side, rather than confronting the garrisons coastal artillery by attacking from the sea." The QDR goes on to say, "Today, efforts large and small on five continents demonstrate the importance of being able to work with and through partners to operate clandestinely and to sustain a persistent but low-visibility presence. Such efforts represent an application of the indirect approach to the long war."

²⁵ Tim Kane, et. al, 2007 Index of Economic Freedom, (Washington DC and New York, The Heritage Foundation and Dow Jones & Co, Inc. 2007), pp 5, 38 and 39. The Heritage Foundation defines 10 Economic Freedoms: Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption and Labor Freedom. On p 38, the index

states “ The definition of economic freedom therefore *encompasses all liberties and rights of production, distribution, or consumption of goods and services. The highest form of economic freedom provides an absolute right of property ownership, fully realized freedoms of movement for labor, capital, and goods, and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself.*”

²⁶ Tim Kane, et. al, 2007 Index of Economic Freedom, (Washington DC and New York, The Heritage Foundation and Dow Jones & Co, Inc. 2007), 38. The index explains, “All government action involves coercion. Some minimal coercion is necessary for the citizens of a community or nation to defend themselves, promote the evolution of civil society, and enjoy the fruits of their labor.”

²⁷ Tim Kane, et. al, 2007 Index of Economic Freedom, (Washington DC and New York, The Heritage Foundation and Dow Jones & Co, Inc. 2007), 38. The index states, “When government coercion rises beyond the minimal level, however, it becomes corrosive to freedom – and the first freedom affected is economic freedom.” Therefore, while government involvement is necessary to protect an adaptive, responsive economy it must do so in a limited role.

²⁸ Thomas P.M. Barnett, The Pentagon’s New Map. Blueprint for Action, A Future Worth Creating (New York, Berkley Books, 2005), 231. As an example, laws passed in response to the 9/11 attacks in the name of “national security” also place impediments on the economy. Thomas P. M. Barnett wrote, “This is where many of our responses since 9/11 seem to be misguided. First, in making it harder to visit and study and do business in the United States, we may scare off a few Gap (*third world nations*) terrorist, but we’ll also decrease a lot of useful social, economic, and political connectivity with the New Core (*new rising nations such as Brazil, China, India and Russia*) pillars right when we should be drawing them closer.” (Italics are mine).

²⁹ P. J. O’Rourke, On The Wealth of Nations (New York: Atlantic Monthly Press, 1st Edition, 2007), 1-2. P.J. O’Rourke writes “*The Wealth of Nations* argues three basic principles and, by plain thinking and plentiful examples, proves them.” He continues with, “Economic progress depends upon a trinity of individual perogatives: pursuit of self interest, division of labor, and freedom of trade.”

³⁰ Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (New York:, Random House, 1994 Modern Library Edition, original book written in 1776), 484-485. The full text is also available on-line at: <http://www.adamsmith.org/smith/won-b4-c2.htm>, Internet, accessed 27 November 2007. “But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he

frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

³¹ Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper Torchbooks, 3rd Edition, 1962), 83. The economist Joseph Schumpeter popularized the term “Creative Destruction” in the following excerpt, “The opening of new markets, foreign or domestic, and the organizational development... illustrated the same process of industrial mutation... that incessantly revolutionized the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of **Creative Destruction** is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.”

³² Merriam Webster Dictionary defines *Protectionism* as “an advocate of government economic protection for domestic producers through restrictions on foreign competitors.” It defines *Populism* as “2: a believer in the rights, wisdom, or virtues of the common people.” It defines *Socialism* as “1: any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods”. All 3 systems appeal to the poor or working class members of society by promising to protect their job, provide services they can not otherwise afford or “take from the rich to give to the poor.”

³³ Compare former Eastern European countries with Western European countries prior to the collapse of the Soviet Union. Goods in Eastern European countries were rationed and people had to stand in lines for basic food items such as meat and milk. After the collapse of the Soviet Union most nation states in the Eastern Europe looked very much the same as they did in the 1950’s. It’s as if time stood still. Compare East Germany and West Germany after the fall of the Berlin Wall. Compare North Korea to South Korea today. North Korea is a failing nation state unable to feed its population while South Korea is a growing economic power in Asia. Compare Canada’s rationing of medical services such that, the wealthy travel south to the United States for surgery rather than wait in line for “free” medical care.

³⁴ Tim Kane, et. al, 2007 Index of Economic Freedom, (Washington DC and New York: The Heritage Foundation and Dow Jones & Co, Inc. 2007), 38. The Index of Economic Freedoms lays out 10 Economic Freedoms. Rooted in those economic freedoms are the principles to create a strong economy which include access to financial markets, rule of law, property rights, education and limited government. The index speaks to the concept of limited government or minimum coercion as follows, “For example, citizens are taxed to provide revenue for the protection of person and property as well as for a common defense. Most political theorists also accept that certain goods—what economists call “public goods”—can be supplied more conveniently by government than through private means. Of particular interest are those economic freedoms that are also public goods, such as the maintenance of a police force to protect property rights, a monetary authority to maintain a sound currency, and an impartial judiciary to enforce contracts among parties.”

³⁵ A key example linked directly to Al Qaeda’s strategy lies in the U.S.’ reliance on foreign oil. The reason why the Middle East (*foreign policy*) matters so much is because the U.S. Economy and the U.S. way of life (*domestic policy*) rely on access to oil. This is where one can see how the U.S. domestic policy with regards to the use of oil products severely limits U.S.

foreign policy options with respect to diplomatic, economic and military relationships. In this example, to give policy makers choices, the U.S. should develop alternative fuel options. In fact, it would work towards America's best advantage to lead the world in developing alternative fuel options. As one can see, there are both domestic and foreign policies America policy makers should consider to enable the U.S. economy to be more adaptive and responsive.

³⁶ Alan Greenspan, The Age of Turbulence, Adventures in a New World (New York: The Penguin Press, 2007), 18.

³⁷ Ibid.

³⁸ The **Budget Enforcement Act of 1990** (Pub.L.101-508, title XIII; 104 Stat. 1388-573; codified as amended at scattered sections of 2 U.S.C. & 15 U.S.C. § 1022) was enacted by the United States Congress as title XIII of the Omnibus Budget Reconciliation Act of 1990 to enforce the deficit reduction accomplished by that law and revise the budget control process of the Federal Government. The Act created two new budget control processes: a set of caps on annually-appropriated spending, and a "pay-as-you-go" or "PAYGO" process for entitlements and taxes. The law departed from the fixed deficit targets of Gramm-Rudman-Hollings, and imposed no penalty if the deficit for a given year grew outside the Office of Management and Budget "Snapshot" or deficit estimate, provided this budget growth was out of Congress' control.

³⁹ Data captured from the Bureau of Economic Analysis and the Treasury Direct website databases; available from <http://www.bea.gov/> and <http://www.treasurydirect.gov/NP/NPGateway>; accessed 18 April 2008. This chart highlights GDP growth compared to Total Public Debt growth. For the 6 ¼ years prior to 9/11, GDP grew more than total public debt. The graph shows America's wealth increasing. For the 6 ¼ years after 9/11 Total Public Debt grew more than GDP. The graph shows America's wealth decreasing. Sep 01, the U.S. faced both an economic crisis in the burst of the internet bubble and the shock of the 9/11 attacks. The U.S. Federal Bank was able to access global financial markets and insure liquidity in the market; preventing a collapse. The U.S. is now in a much weaker position to absorb a similar shock into the system.

⁴⁰ Jun 95 – Sep 01 GDP grew 38.12% (see Figure 10 below). Public Debt grew 15.67% (see figure 3 on p9). During this period of time the U.S. Economic wealth grew. This is because GDP growth outpaced Public Debt by more than twice as much.

⁴¹ Sep 01 – Apr 08 GDP grew 38.87% (see Figure 10 below). Public Debt grew 63.47% (see figure 3 on p9). During this period of time the U.S. Economic wealth declined. This is because Public Debt outpaced GDP by nearly twice as much.

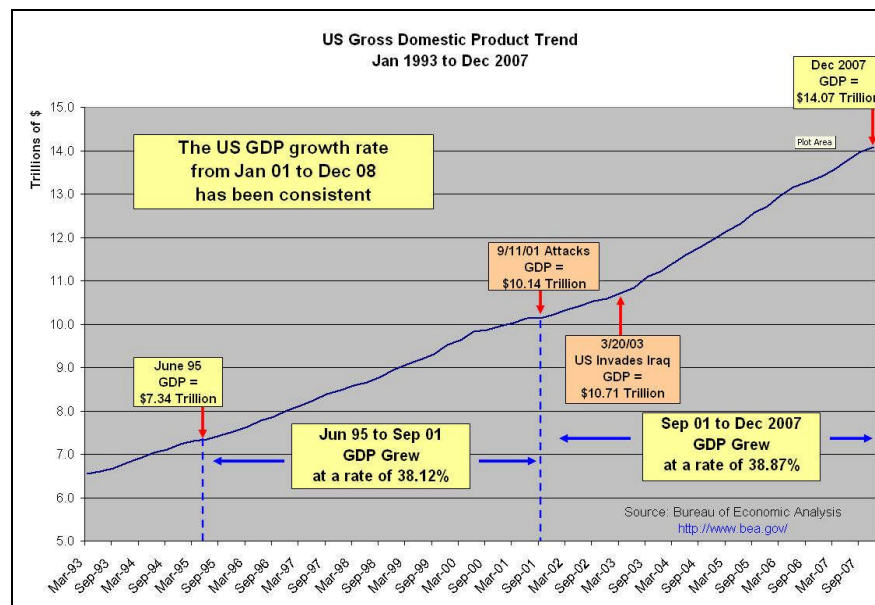


Figure 10: US GDP

⁴² Data captured from the Bureau of Economic Analysis and the Treasury Direct website databases; available from <http://www.bea.gov/> and <http://www.treasurydirect.gov/NP/NPGateway>; accessed 18 April 2008. This chart depicts the GDP to Total Public Debt ratio. This ratio is calculated by dividing the GDP by the Total Public Debt. This chart demonstrates graphically America's growing wealth from Jun 95 to Sep 01 where the ratio increased from 1.48 to 1.77. Because the GDP grew faster than total public debt, one would expect a stronger dollar because there are fewer Dollars chasing more goods. This chart also demonstrates America's declining wealth since Sep 01 to Apr 08 where the ratio decreased from 1.77 to 1.52. Because total public debt grew faster than GDP, one would expect a weaker dollar because there are more Dollars chasing fewer goods. Since 9/11 the U.S has been printing more money than the economy has grown, this creates a weaker dollar and will lead to future inflation.

⁴³ Data captured from the OANDA Corporation website database; available from: <http://www.oanda.com/convert/fxhistory>; accessed 18 April 2008. This chart depicts the decline of the U.S. Dollar against the Euro. The U.S. Dollar hit its peak on 6 Jul 01 when \$1 bought 1.1943 Euros. On 11 Sep 01 the \$1 bought 1.1124 Euro. 6 ½ years later on 11 April 08, the \$1 bought .632 Euros. The Dollar declined 43% since the 9/11 attacks. As the graph highlights, this means U.S. goods are now 43% cheaper for Europeans. However, it also means that European goods are 76% more expensive for Americans.

⁴⁴ Data captured from the Energy Information Administration website database; available from: http://tonto.eia.doe.gov/dnav/pet/pet_pri_wco_k_w.htm; accessed 18 April 2008. Notice from 11 Sep 01 to 4 Apr 08 the price of oil increased 4 times in Dollar terms, however, it only increased 2.3 times in Euro terms.

⁴⁵ Slide 7 shows the price of oil increased 4 times in Dollar terms, while it increased 2.3 times in Euro terms. Slide 8 shows that gold increased 3.23 times in Dollar terms, while it

increased 1.85 times in Euro terms. Slide 9 shows that flour increased 53.7% in Dollar terms, while it decreased 4.7% in Euro terms.

⁴⁶ Data captured from the USA Gold website database; available from: <http://www.usagold.com/reference/prices/history.htm>; accessed 18 April 2008. Notice from 11 Sep 01 to 10 Apr 08 the price of gold increased 3.23 times in Dollar terms, however, it only increased 1.85 times in Euro terms.

⁴⁷ Data captured from the Bureau of Labor and Statistics website database; available from: <http://data.bls.gov/PDQ/outside.jsp?survey=ap>; accessed 18 April 2008. Notice from Sep 01 to Feb 08 the price of flour increased from \$.296 per pound to \$.455 per pound (a 53.7% increase). However, if you convert the price to Euros, the price of flour has declined 4.7%.

⁴⁸ See again endnote 42 and Figure 5 on page 22. During the period where GDP grew faster than public debt the U.S witnessed a strong Dollar. During the period where GDP grew much lower than public debt the U.S. witnessed a weak Dollar. For the U.S. to regain confidence in the Dollar she must grow her economy at a much faster rate than she accumulates public debt.

⁴⁹ John Quincy Adams, transcript of the speech given to the US House of Representatives, 4 July 1821. This paper favors the John Quincy Adams view of non-intervention where the U.S. doesn't seek adversaries to provoke. This paper argues the U.S. should actively seek trading partners, promote free trade, and create economic connectivity amongst all nation states (see endnote 49 for definition of non-intervention).

⁵⁰ Ted Galen Carpenter, The Libertarian Reader, "Toward Strategic Independence" (Glencoe, IL: The Free Press, 1997), 336-344. Non-intervention is a foreign policy which holds that political rulers should avoid alliances with other nations and avoid all wars not related to direct territorial self-defense. A similar phrase is "strategic independence." George Washington in his farewell address of 1796 advised the country to avoid "foreign entanglements". Thomas Jefferson in his first inaugural address in 1801 favored "peace, commerce, and honest friendship with all nations; entangling alliances with none." This paper does not argue the elimination of U.S. alliances or that we should limit war to only territorial defense. It argues it can move towards a more neutral approach from the current policy of pre-emption and first strike. Policymakers must have all options available to them, but should exercise those options with caution and restraint.

⁵¹ Michael Scheuer, Imperial Hubris (Washington, DC: Brassey's Inc., 2004), 252.

⁵² Thomas P.M. Barnett, The Pentagon's New Map, Blueprint for Action, A Future Worth Creating (New York: Berkley Books, 2005), 251.

