



NAVAL WAR COLLEGE
CENTER FOR NAVAL WARFARE STUDIES

GLOBAL 93

ECONOMICS AND NATIONAL SECURITY:
CHALLENGES FACING THE NATION



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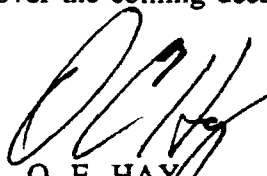
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Economics and National Security: Challenges Facing the Nation

It has become axiomatic that Soviet collapse and the reduced drain on our national resources resulting from the end of the Cold War, should place our economic strength at the center of national security policy. Yet, the ability of the nation to focus on the domestic economy will be complicated — perhaps fatally so — by two central paradoxes; its ability to resolve these will define its role in history.

- The first paradox is that while Soviet collapse and the magnitude of our domestic problems drives our attention inward, the reality of globalization (of money, of goods and services, of technology, of media) dictates outward looking economic policies. The national domestic agenda demands a global strategy. This is not merely a conceptual dilemma; it has immediate and profound implications for political strategy, given that the constituencies that reinforce the administrations' domestic orientation are not those that understand — or sympathize with — the reality and effects of globalization. The constraints that globalization imposes on economic policy are not well understood, and the protectionist/isolationist impulse within the country is still strong. Thus, the administration's pursuit of its domestic agenda could well degenerate into beggar-thy-neighbor trade and investment policies.
- The second paradox is that while the disappearance of a perceived monolithic threat permits greater focus on the economic and technological underpinnings of national security, the external environment — if allowed to evolve spontaneously — will produce threats and conflict calling strongly for U.S. intervention — whether that be unilaterally or otherwise. Our strategic retrenchment demands our continued global leadership. We cannot simply leave the world to its own devices, and expect to sustain over time the hoped-for focus on the domestic economy. Yet again, this paradox will be difficult to resolve, in part because foreign perceptions of American retrenchment create their own logic that progressively undermines American leadership; partly because the domestic consensus behind continued American global responsibility is increasingly tenuous; partly because those capabilities we need to disengage responsibly from cold war obligations are controlled by interests/government agencies which may not be prepared for the more limited and flexible use of force that such disengagement requires.

Although there are policies capable of resolving these tensions in a way that both confronts our domestic problems and maintains our global responsibilities and our full participation in the world economy, it will be tremendously difficult to do this. Given our scarce resources, structural shifts in the global economy and the likelihood of low growth well into this decade, it will be a political and diplomatic achievement of Trumanesque proportions to avoid the extremes of protectionism and isolationism on the one hand, and of a futile effort to guarantee global stability on the other.

Three major forces acting on U.S. policy have produced these paradoxes.

Globalization and Increased Interdependence

The reality of globalization is clear to all observers. It is manifested in tremendous increases in foreign direct and portfolio investment worldwide, the evolution in forms of globalization from the trading of goods and services to the establishment of manufacturing facilities, to the increasingly global conduct of research and development, skill acquisition and recruitment, financing, public relations and advertising, and so forth. The concomitant increase in U.S. dependence on the global economy is equally clear in the growing proportion of our GNP represented by trade, by the growing dependence of American corporate success on revenues generated abroad, by the increasing flows of science and technology into the country, and by heightened competition between nations of global firms. Our competition is not only the OECD countries but also the NICs, like Taiwan and Korea. The NAFTA debate has also made us aware of Mexico as a potential competitor for increasingly scarce manufacturing jobs now in

the United States, as well as an important trade partner. A decade out, the newest and most potentially powerful NIC could well be China.

The consequences of globalization for the American economy and for foreign economic policy are compelling.

- Globalization has increased the dependence of U.S. welfare on events beyond our borders and beyond our control. A decision by a foreign government to strategically grow a critical industry can dramatically reduce the prospects for American firms and the welfare of American workers; the decisions of a foreign central bank to control money supply by raising interest rates will affect not only its own country's growth, but the growth of those economies linked to it, either directly through agreements to maintain certain currency relationships, or indirectly through trade or investment interdependencies; foreign corporate decisions made independently of any government can generate employment and income opportunities in American communities, just as they can undermine the viability of locally domiciled firms.
- The globalization of money, trade, and technology has dramatically diminished the powers of government to shape 'domestic' economies — at least over the short term. Trade policies designed to protect noncompetitive industries can have the perverse effect of enhancing the competitiveness of foreign industries against which they are targeted (U.S. car import quotas and their effects on the Japanese). Technology export controls designed to stem the flow of leading edge technologies may simply shift sales to foreign competitors, and eventually drive U.S. firms offshore. Macroeconomic policies, if not effectively coordinated with those of major economic partners, can have a variety of perverse effects — for example, policies designed to trim bilateral trade deficits by talking down the value of one's currency can have inflationary effects which over the long term undermine the benefits of any short-term improvement in the trade balance.
- Global firms are both the instruments and beneficiaries of globalization, and they have emerged as independent actors in international economics and politics. Policymakers accustomed to dealing with interactions of states and of the policies of states must now take into account the autonomous strategies and behavior of large, globally deployed firms. Such enterprises have long-term strategies; possess their own global telecommunications systems; do their own intelligence collection on competitors; run their own training and educational systems; maintain their own security operations; and pursue their own negotiations with governments. Official intelligence operations which once focused on governments and in some cases subnational groups as key actors in the system, must now reorient their skills and the

targets of intelligence collection to account for the growing influence of companies. Relationships between governments and firms, and in particular between our own government and the corporate sector, grow tremendously in importance. The ability of those firms to set the agenda, particularly in the area of international negotiations on trade and finance, is tremendously enhanced. Policies designed to satisfy both economic and national security objectives must now be conceived and implemented with a thorough understanding of the likely corporate response, and — for both conceptual and political reasons — with heavy corporate input.

- Globalization accelerates shifts between national economies, diffuses wealth, allocates growth and income to those governments that are hospitable to corporate operations, possess the endowments — infrastructure, educated workforce, reasonable cost of capital, etc. — favorable to competitiveness, and are linked to major markets. Particularly in a decade of huge investment needs and a relative scarcity of capital, the easy transferability of investment funds will further intensify the competition for capital between countries, destabilize currencies, and place inward investment promotion at the center of national policy.
- As a consequence of the ease with which capital is transferred between markets, globalization also tends to undermine certain types of government organization which are ideologically or structurally inhospitable to private capital, while it tends to reward others. While this has redounded to the benefit of open, capitalist-oriented economies, the competition for capital between such regimes will continue to be intense. Thus, economic — and possibly strategic — conflicts between capitalist-oriented countries, including those with relatively modest differences in organization and policy, are likely to grow. Over time, this could narrow the differences in government policy toward homogeneity ('what works') and therefore neutrality with respect to investment; on the other hand, it could exacerbate political and diplomatic differences and produce the dominant international conflict of the early 21st century.
- Just as globalization reallocates wealth internationally, it produces both winners and losers domestically. Winners are those firms, communities and workers that attract investment and/or those who become increasingly competitive globally. Losers are those industries, communities or workers without the endowments necessary to be attractive to either domestic or foreign investment. What to do with the losers in the decade of the nineties and beyond will be a major political issue, and one that will help define just how constructively the U.S. government engages the global economy. In this sense, policies designed specifically to ease the adjustment burden for workers and communities, or broader social policies which establish a safety net for those who fall — for whatever reason — below a certain income level, are integral parts of any globalization strategy.
- Finally, certain global institutions at the center of post-war international economic policy are as subject to obsolescence as are certain forms of government. Institutions which depended upon large permanent bureaucracies, those with complex mandates which resist change, those utilizing cumbersome and time-consuming negotiating

procedures, will all be under stress from the rapid change inherent in globalization, and the growing impotence of government. The GATT is an obvious candidate. Despite — for the nth time — forecasts of imminent success in the Uruguay Round, the institution is clearly out of step with its environment, has absorbed far more diplomatic capital than the results warrant, is suffering from increased attention to regional trading arrangements, and is simply unable to reach agreements quickly enough to keep abreast of changing technology, commercial practice and corporate strategies. The same can certainly be said of COCOM, which with its historical East-West focus, its dependence upon a list of prohibited technologies which is in a constant state of obsolescence, and its presumption of consensus among a growing and diverse set of suppliers, will not be able to make the transition from Soviet focus to a weapon's technology proliferation/Third World focus. Furthermore, in a global system of huge and rapidly shifting flows of capital relatively indifferent to the short-term policies of governments, the very utility of such negotiations, even if they were to be "successful" in a diplomatic sense, is open to question. The very success of these negotiations historically may have now brought us to the point where only the fundamentals — things not subject to government influence, at least over the short term — pretty well govern the allocation of resources internationally.

These impacts of globalization leave for government the critical role of mediating between local and global forces, of assuring justice for those who fail to benefit from the process, as well as efficiency in assuring that the country as a whole does benefit; of building and maintaining domestic political consensus behind globalization at a time of fiscal stress and high unemployment; and of avoiding policies that are either ineffective or perverse. This will not be easy. The administration will be pressured severely and continuously to exempt certain groups from the rigors of international competition, to protect instead of compete, to delay fiscal adjustment, to substitute regional or bilateral for global integration, to husband our technology. Its ability to resist these pressures — by getting its social programs in place; by articulating a vision which expresses the tangible benefits of globalization for the country; by creating an environment which attracts foreign investment; and by aggressively promoting the interests of our firms abroad — will determine the Administration's success or failure.

The End of the Cold War

While economic globalization is a clear trend producing — over the last two decades — an abundance of evidence in the form of global investment statistics, trade data, corporate strategy case studies, and so forth, the demise of the Soviet Union and the end of the Cold War came suddenly, surprised us all, and continues to confound us. Although the irreversibility of Soviet collapse and the bankruptcy of its political and economic system are clear, the consequences of this event for world politics and for national governments are only beginning to be sorted out. Witness the wide divergence between those who anticipate "the end of history," the elimination of armed conflict, the triumph of democratic capitalism and a focus of international competition on market and technology acquisition; and those who see us headed "back to the future," to a world of many centers of power organized in shifting coalitions, competing for the old reasons of territory, resources and values.

What is clear is that the process by which the end of this dominant conflict reverberates through multilateral and national institutions has just begun, and that we need to maintain very open minds about those organizations which may join the Soviet Union in history's dustbin.

So what can we say about the consequences of these recent events for U.S. policy?

- The end of the Cold War will probably accelerate the process of economic globalization by reducing — particularly for this country — the tension between economic policy and national security policy. As the two domains merge, governments will be progressively released to pursue economic growth with fewer competing diplomatic and budgetary pressures from the national security agenda.

- The end of a dominant conflict has also weakened certain institutions that explicitly or indirectly depended upon a monolithic, external threat. Some of these institutions may adjust to new realities and redefine agendas; others that were devoted exclusively to security will find these adjustments very difficult, and are likely to disappear. While some of the potential victims of this process are obvious — NATO and COCOM come to mind — other global institutions whose mandates were not security per se, but which depended for consensus upon the backdrop of an external threat, are less obvious. It would appear, for example, that the difficulty in concluding the most recent round of GATT trade negotiations has a great deal to do with the simultaneous disappearance of the Soviet threat, since that event eliminated the downside risk that historically encouraged consensus in the GATT — namely that the failure to agree would erode the Western alliance. The recent difficulties the European Community has experienced in implementing the Maastricht Agreement is another case in point, again not because the EC is principally a security organization, but because the context in which the community operated during the earlier part of the eighties, which served to remind the Europeans of the value of unity as well as the risks of disunity — suddenly disappeared.
- The breaking apart of this multiethnic empire has clearly caused a fragmentation among states whose borders were drawn arbitrarily, which contained large ethnic minorities whose loyalties belonged elsewhere, or who were themselves targets of irredentism from contiguous states. The all-out civil war in Yugoslavia, the bloody ethnic conflicts in the Caucasus and in the former Asian Republics, the incipient disputes between Hungary and Slovakia over Slovak treatment of its Hungarian minority, and between Hungary and Romania over the same issue, are but a few examples. Clearly the result of the Soviet breakup has been increased chaos, although the precise threat this poses to U.S. interests are still to be defined.
- The end of the Cold War is also one of many forces contributing to a weakening of U.S. leadership in the OECD area, with respect to both national security and international economic issues. It has elevated global economic competition — for markets, for technology, for capital, for resources — among former allies to the top of foreign policy agendas and the forefront of world politics. The shape of international relations which is beginning to emerge is one in which the principal struggle is between alternative forms of democratic capitalism which diverge with respect to the role of government, the importance of consumption versus investment, the degree of economic concentration, and the capacity of government to deliver a certain quality of life to their citizens. This struggle is not necessarily unhealthy so long as the trade and investment environment remains open and cooperative institutions are maintained; it could however degenerate into increasing ideological hostility and even into armed conflict in the event that the global economic environment fails to improve.

Beyond these specific and already visible effects, there is the fundamental issue of the very utility of national government in the global climate that is emerging. Deprived by globalization of the leverage over their domestic economies that they once enjoyed; deprived of a clear national security rationale by the end of the Cold War; facing increasing demands from populations whose long-deferred expectations are now coming due; and confronted by budget deficits which guarantee these expectations will not be met, at least through government programs — many governments will be under siege during this decade and the next. The glue that held many governments and countries together during the past 40 years — a clear external threat, a domestic consensus behind preventing communist control over central government — has now dissolved. The stresses on government performance resulting from low growth, structural shifts in the international economy and rising expectations for a "peace dividend" will further challenge the legitimacy of many regimes. Government ability to deliver a reasonable — and rising — standard of living in this environment, will be the central element separating the successful from the obsolete.

This would suggest that the political chaos in Italy, the universality of unpopular, minority governments throughout Europe, the current challenge to the dominance of the Liberal Democratic Party in Japan, the rise of a viable third party movement in the United States, are not isolated and anomalous events, but the common product of globalization, international political change and structural transformation of the world economy. If this is the case, historians decades from now will look back on the destruction of the Soviet Union as the first casualty of the late twentieth-century global economic crisis. Accordingly, the destruction of the Soviet state and its empire is not to be viewed as the triumph of democratic capitalism, but as

the first event in a global political revolution producing institutions more in accord with new global realities.

These realities may be particularly difficult for this country to accept and embrace, partly because of our historical exaggeration of the Soviet threat (and our intellectual disarmament upon Soviet demise), in part because of our habit of subordinating economic interests to a definition of national security which became increasingly inappropriate in the decade of the eighties. The problems that our allies had, principally of recovery from the war, were largely overcome by the mid-60s; it is now our domestic problems that compel greater attention.

Low Growth and Structural Change in the Nineties

If the twin forces of globalization and the end of the Cold War pose challenges to American policymakers, it is the current and likely future context of low growth that make these challenges particularly acute. The OECD recently reported that unemployment among the rich countries of the world is approaching 34 million — the highest level in a decade. And with its European members mired in a deep slump, the OECD holds out no hope for short-term relief. Few observers of the global economic scene predict anything other than slow, painful recovery for the OECD as a whole.

The phenomenon of this "jobless recovery" reflects the underlying importance of structural change. Normally, at this point of the business cycle, employment would be growing briskly as employers began hiring back laid-off workers and as new jobs were created. This is

not happening today. While there has been a recent and hopeful fall in unemployment, most of the gains have been in lower-pay service sector employment. The United States, meanwhile, continues to lose higher-paying manufacturing jobs at a current clip of 45,000 a month. In all, some 85 percent of the people in the United States who lost their jobs in the last three years will not get them back. That figure is double the rate of each of the last four recessions. Even Japan is wrestling with critical employment issues in light of, for example, Nissan plant closings and emerging questions over the feasibility of lifetime employment.

There is a developing country dimension to the global jobs issue as well. Contrary to popular concepts of an extreme one-way movement of jobs from the rich countries to the developing world, many emerging economic powers have suffered serious job losses of their own as the entry price of joining the global trading system. Many small and medium-sized manufacturers in Mexico, for example, are taking a beating at the hands of large, more efficient U.S. producers only recently allowed to sell in the Mexican market under reasonable tariff terms. Until now, the promise of NAFTA has kept Mexican protectionists at bay. But with NAFTA in trouble, the fires of economic nationalism in Mexico may once again be fanned, threatening what has become, over the least several years, a large and lucrative market for U.S. exports.

The unemployment problems in the developing world caused by technology and trade liberalization are relatively recent. One should not lose sight of even more fundamental causes: rapid population growth and inappropriate economic policies, which contributed to a decline in traditional agriculture and a massive, unplanned migration to major metropolitan areas. Today, across many of these major urban areas, from Mexico City to Bangkok, relatively few stable

employment opportunities exist in the cities for these largely unskilled refugees of rural poverty. In the face of unemployment or severe underemployment, many take to the road again — this time headed for Western Europe, the United States or the more prosperous countries of Asia.

Behind these permanent job losses are major structural forces that the coordinated policies of all of the world's economic heavyweights would not be able to deter significantly.

In a nutshell, the United States and its trading partners are all players in an increasingly intense, indeed cutthroat global battle for markets. Productivity maximization is the name of the game and technology and organizational "re-engineering" are, for most corporate participants, the essential ingredients for success. The substitution of computers and telecommunications for human capital are the key developments on the technology side, and they are also a driving force behind corporate reorganization and downsizing. The impact is felt at virtually all levels. It is not just the manufacturing worker who is replaced by computers, but also the department store clerk and the manager.

Importantly, contrary to the claim of protectionists, increased foreign trade with lower-wage countries is not the cause of the loss of U.S. jobs or the stagnation in wages over the last decade. The cause is automation. Indeed, current research cited recently by Columbia University's Jagdish Bhagwati suggests that as much as 95 percent of wage stagnation in recent years can be traced directly to technology.

The end of the Cold War is another important dimension of structural change in the U.S. economy, the impact of which will be felt for years to come, particularly in defense-oriented states such as California and Connecticut. The intense fiscal pressures of the federal government leave little or no scope for a return to the heavy defense spending period of the 1980s. As a result, thousands of engineers, technicians, managers and support workers will join the ranks of unemployed defense workers. Some individuals will successfully make the transition to civilian industry (although many at lower level jobs). But many companies will not survive the transition to nondefense markets because of outmoded and/or noncivilian applicable technologies, noncompetitive cost structures and a corporate culture that is ill-suited to direct and implement the market-driven strategies and operational changes required for survival.

The last structural issue to be addressed here is demographics. All the OECD economies are aging, and this poses a special challenge when productivity and income are growing slowly, as they are today. Thus far, in the United States the aging burden has been manageable, partly because of the offset of fewer children. But as "baby boomers" begin to retire around 2010, the ratio of retirees to workers, which is today one-to-three, will climb to one-to-two or even smaller. This demographic trend represents a serious future drain on government budgets.

Thus, the OECD countries are in the midst of a period of economic restructuring marked by slow economic expansion. Under most plausible scenarios, we will experience historically high un- and underemployment rates and low household income growth — through the end of this decade and probably into the next. This particular scenario has several consequences, all of them negative for the development of a global oriented national security policy.

- The downside effects of globalization are more powerful in a period of low growth — with obvious implications for efforts to build domestic political consensus behind globalization, and to develop and implement policies that accept this reality and attempt to direct the benefits in a way that is socially responsible. The dashing of European hopes for economic and monetary union, after a period of rapid and seemingly effortless progress toward that goal, is a case in point. What changed for the Europeans was the disappearance of a cohesion inducing external threat, and the onset of low growth which — well before the first Danish referendum — began throwing wrenches into the Exchange Rate Mechanism and calling into question the ultimate goal of a common currency and European central bank.
- Competition between major players for investment capital, for markets, for technology heats up in a period of low growth, and is also more likely to take predatory forms. Existing trade agreements are called into question either explicitly, or incrementally, by a growing range of protectionist actions. Export subsidies become more of a problem as governments attempt to capture a larger piece of shrinking markets. Artificial inducements to inward investment become commonplace. New and more subtle means of protection emerge. The temptation grows to focus on regional trading arrangements to the exclusion of more effective global management. Here in the United States, with NAFTA's passage looking increasingly troubled, we see that even regional trading strategies appear threatened in this increasingly protectionist environment.
- Possibly insupportable stresses will be placed on emerging free market/pluralist regimes in Eastern Europe, the former Soviet Union and Latin America. The financial support that many of the countries in these regions require will not be forthcoming. The foreign markets in which their products are competitive, and which are essential to growth given the collapse of their domestic economies, will be closed. The rewards from capitalism that were promised by democratically elected governments, will be long in coming and will confront increasing popular discontent and political fragmentation. In this scenario, it is impossible to be optimistic about any part of the former Soviet Union and its empire, and hopeful only with respect to Hungary, Poland and the Czech Republic.
- Economic failure in the LDCs, resulting from, among other things, being closed off from OECD markets turned protectionist, will lead to, minimally, harsh reactions against free markets and foreign investment and, in some cases, economic crisis and political instability. It is hard to exaggerate this threat. Inevitably, a spillover effect will be a significant increase in economic refugees headed for the United States and Western Europe. The future holds the risk of millions of economic refugees in flux across the globe, thus further aggravating the anti-immigrant tensions that we see rising in many of the rich countries.
- There is a greater likelihood that ethnic conflict will spin out of control, and will spill over borders to involve contiguous states, thus adding to the already burdensome refugee problem. Although ethnic conflict stems from a variety of sources, the

ability of the governments of many multi-ethnic states in Eastern Europe to deliver on their promises will be compromised by low growth, and will exacerbate preexisting ethnic tension. It is no coincidence, for example, that the Yugoslav economy was in a state of perpetual crisis during most of the decade preceding its violent implosion.

Some Implications for U.S. Policy

Of the three major forces impinging on U.S. policy — globalization, the end of the Cold War, and low economic growth — the one over which we can have the greatest positive influence is growth. The demise of the Soviet Union and the end of the Cold War are irreversible. Globalization can be impeded, but only at great cost, and in any event cannot be reversed. The conclusion seems inescapable that we must assign priority — in time, resources, energy — to restoring growth. That means building globally competitive industries, stimulating technological innovation, and increasing our savings and investment. It also means improving the conditions of life in our cities, for minorities, for displaced workers in communities devastated by structural shifts. This is essential whether the goal is to restore the foundations of national security, to improve our economy and its growth, or to create a more just society. We cannot be a positive, creative force in the global economy unless our industries are globally competitive, and unless the benefits of globalization are evident and distributed in a way that is equitable.

As we pursue this national agenda, leaders and citizens alike must come to grips with the need for short-term sacrifice. The inescapable fact of life is that a higher standard living in the future is possible only if we save and invest more today. That, in turn, means some combination

of reduced government spending for non-critical (but politically popular) entitlement programs and/or higher taxes. The Competitiveness Policy Council's latest report estimates that the national saving rate will have to increase by 5 to 7 percent of gross product to cover the required investment needed in roads, bridges, ports, etc., as well as in "soft" infrastructure such as education and training programs. Neither can be postponed. The obvious and difficult political challenge facing, in particular, the rich countries of the West, is building and maintaining political support for these tough actions at times of high unemployment and stagnant wages. But it is a challenge that cannot be postponed without serious consequences for the next and subsequent generations of Americans.

We must implement our domestic agenda in a way that accepts the power and the inevitability of globalization. We need to fight to preserve the multilateral trading system, no matter how weary and weakened its institutions have become. We clearly need to boost exports, which represent the most important source of growth in manufacturing jobs, particularly higher-paying ones. In fact, export-related jobs pay 17 percent more than the average U.S. wage and demand higher skill levels and R&D investment. Exports also provide an important buffer against domestic market downturns. The United States has barely tapped its export capability, with more than half of all national exports accounted for by only 100 companies.

We must aggressively maintain and expand open markets for our products, take maximum advantage of global resources — capital and technology especially — without regard for their source, and create optimum conditions for foreign and domestic investment in the United States through improved infrastructure, education and training, government-supported civilian R&D,

tax policies favoring investment and so forth. It is imperative that the growth emphasis not become a way of dignifying protectionism, of fleeing from the realities of globalization, but a way of embracing the process and seizing the opportunities that it offers for increasing investment and enhancing the overall competitiveness of our economy. It will also require that we not cling to a trade policy doctrine that defined success as an increase in overall global trade, and accepted our dwindling competitiveness in key, employment-generating industries as proof that the doctrine was 'working.' Trade policy for the decade will call for actions — such as negotiated increases in foreign market shares for U.S. based manufacturers, aggressive enforcement of U.S. anti-trust law against foreign cartels that operate in the United States, and so forth — at odds with traditional concepts and theories.

Securing our deserved piece of global market share in manufactures will not be sufficient. We also need unimpeded access for our service industries, many of which are world leaders. In particular, the United States enjoys significant competitive advantage in financial services, but has been stymied in its attempts to penetrate many foreign markets, including Japan. The point is that if we commit ourselves to absorbing the restructuring effects of globalization at home, we need to enjoy market access abroad that will compensate for domestic market disruptions and adjustment.

Such a focus on a growing domestic economy will, however, become increasingly untenable should the world — in this low growth, domestically absorbed climate — descend into chaos, for this will surely produce added divisions globally and reverberate domestically. Even assuming no reemergence of a credible Russian threat, the transition to a stable post-Cold War

system — presumably involving a greater reliance on regional and global collective security structures — will not occur spontaneously. It must be managed, and it must be managed by the United States. We do not have — given our interdependence and a present lack of alternatives to U.S. leadership — the luxury of a single-minded focus on our domestic economy. This is not to suggest that the world must be made perfect before we permit ourselves the attention and resources our domestic problems warrant. It does suggest that the process of handing off responsibility for global stability to other institutions, of reducing our budgetary and diplomatic commitment to American primacy, of disengaging from commitments either no longer necessary or affordable, must be made explicit policy. It must be articulated and effectively sold to allies, to potential adversaries, and most importantly, to the American people. And it must be accompanied by efforts to build the necessary capability in those institutions which will now have the burden of world leadership.

Managing the Transition

Whether the country negotiates this transition successfully will depend principally upon the success of the administration's domestic agenda, the capacity of the major trading countries to cooperate effectively in the face of rampant protectionist pressures, and the potential occurrence of crises demanding an American response. These forces are largely beyond the control of the national security community. However, there are some things that this community can do within a reasonably short period of time to establish the intellectual basis for a post-Cold War national security policy.

- Improve intelligence and early warning. One obvious approach to maximizing influence in a period of dwindling relative U.S. power, is to increase knowledge, and our responsiveness to this knowledge. It is essential that the quality of intelligence, its ability to anticipate crises, its responsiveness to the policy process, and its understanding of the new economic forces at the center of U.S. policy, must all be dramatically improved. The benefits of such an improvement are compelling; action taken earlier in the evolution of a crisis widens the scope for preventive diplomacy and lessens reliance on force; early-warning also allows time for the development of multilateral consensus essential for collective action.
- Develop conscious strategy, publicly articulated and aggressively sold to the Congress and to the American people, to collectivize security through a beefed-up U.N., as well as through regional organizations as appropriate. We cannot continue to dump crises into the U.N. system without regard for the organization's capabilities and the damage to its credibility should it fail. If we are serious about devolving power to multilateral organizations, this needs to be reflected in our financial commitments, in our willingness to support Japanese and European permanent representation on the Security Council, in the provision of necessary logistics, communications, intelligence, and combat troops essential to the realization of this goal. If the U.N. is to be made the centerpiece of collective security in the future, the United States needs to get out in front of this process, to lead it, and to improve our performance in the special diplomacy of multilateral organizations.
- We need a national debate on the role of force in those conflicts where location, humanitarian impacts, cross-border potential, and culpability warrant some response. We need to articulate some set of criteria for collective and — if that fails — unilateral intervention. These criteria must not be so precise as to invite aggression in those areas exempted by the definition; but they must be clear enough — and sufficiently reinforced by global consensus — to act as a deterrent and to form the basis for a policy vision which mobilizes the necessary domestic and international political support.
- As part of this debate, we need a collective assessment of where and why we failed in Bosnia, for certainly we can at least agree that we failed to act early enough, and that the present catastrophe might have been avoided had we demonstrated some resolve earlier in the conflict. This debate might produce a greater understanding of when in the evolution of a "domestic" conflict some multilateral intervention is warranted, independently of the preferences of the parties to that conflict.
- The world that is emerging will reward a very different set of national assets. Forms of power that once conferred great influence will become less relevant in the decade of the nineties and beyond. We therefore need a systematic inventory of those assets (the size of our market; the robustness of our technology; the creativity of our artistic life; our continued military supremacy) that are likely to be usable in the emerging international environment. We need to get much better at marshalling these assets to influence other actors and institutions in directions compatible with our longer term

interests. We need to get better at flexibly deploying and trading these assets to satisfy U.S. objectives. For example, a recent bilateral agreement between the United States and Argentina traded off Argentine access to U.S. technology in exchange for Argentina's restraint in the exporting of nuclear technology to non-nuclear weapon states. This example needs to be studied and emulated.

- In so doing, we will have to break down the rigid boundaries between bureaucracies whose mandates no longer correspond to the real issues, and whose commitments to standard operating procedures can frustrate the exertion of our influence globally.
- We need to develop the ability to effectively implement domestic policy that is comparable to our foreign policy capability. Over the past 50 years the State, Treasury and Defense Departments, along with the CIA and the Federal Reserve, have all developed a broad and sophisticated range of institutionalized experience and expertise capable of acting with some efficacy in the international political arena. Over the same period, domestically focused Departments have not developed comparable capabilities with regard to the domestic economy and its international competitiveness. Our federal government is in this respect the antithesis of Japan's, with its domestic economic expertise and relatively limited foreign policy capabilities. Just as defense plants cannot be rapidly reengineered into consumer goods factories, government agencies cannot be quickly or easily changed from being the instruments of economic fairness and the distributors of political largesse into the facilitators of global competitiveness. Entirely new institutions may be required and time will certainly be needed to cultivate the requisite bureaucratic skills and capabilities.
- We need a more skillful diplomacy that uses improved intelligence and this new understanding of our foreign policy assets in the interest of maintaining regional balances, retarding the rate of weapons/technology proliferation, and building new collaborative approaches in trade and finance. Our diplomacy must become more anticipatory, more fluid with respect to its alliances, more flexible in trading off certain assets (technology; market access; foreign aid, etc.) in exchange for foreign government actions that reinforce our vision of global order. It is also a diplomacy that acts with knowledge about, and in concert with, U.S.-based global firms, which supports the interests of these firms and benefits from the intelligence and the leverage these firms possess in the global economy.
- To be truly effective global actors, we as a nation need to become more internationally experienced. Our knowledge of foreign languages and cultures is embarrassingly limited. Too few of us have lived, studied or worked abroad. This insularity not only is a liability in commercial affairs; it remains a serious blind spot in our national security capabilities. We must, therefore, devise and restore funding for educational programs that support foreign language and area studies. More importantly, we need to expand and if necessary improve on the Peace Corps concept and create opportunities for talented young people to perform service work abroad. This is good diplomacy and an even better investment in our national skill base in a globalized world.