

Debt, Defense, and Diplomacy: Foreign Policy Dilemmas before the President-Elect

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Last week Americans voted in record numbers for a new president. However you felt about the outcome, you must have been moved, as I was, by how the two candidates reacted to the election results. In defeat, Senator McCain was gracious, sincere, and – as always – put our country ahead of himself. His patriotic call for all of us to "help our new president lead us through the many challenges we face" reminded us why he deserves our respect both as a man and as a public figure.

President-elect Obama's remarks at his victory celebration in Chicago were eloquent and inspiring. Two-and-a third centuries ago, our founders pledged that we would be a nation in which "all men are created equal." We have finally made that proposition an irrefutable reality.

November 4, 2008, was a night to be proud – more proud than ever – to be American.

Now it is the morning after. We must turn our attention to the grim realities of our current situation. Those realities didn't change because we elected Barack Obama as our president. Given the magnitude of the problems we face, it wouldn't surprise me at all if, once the sting of defeat wears off, Senator McCain feels grateful that someone else has been saddled with these problems. As Joe McCain, John McCain's fiercely partisan younger brother, said the day after the election, "there is no time for looking back, not with what history will inevitably throw at us. . . . Times are going to get more challenging, possibly even very dark . . . Problems will be thrown at us we cannot even imagine . . . I am going . . . to try to help our President-to-be to bring the land to a safer, better place," he said. ". . . For if Barack Obama fails, we all fail. Together."

In that spirit, I want to speak with you about some of the choices President-elect Obama and the American people now confront. A few of these choices are unavoidable; many entail painful consequences for us and for our foreign relations; most are difficult. The list of our problems is long, but I want to leave time for discussion, so I will try to be brief. That means I will be superficial – but that has never bothered me at all. Years ago, a wise man from the East told me that if something is worth doing, it is worth doing superficially. (He was from the East Coast of the United States. I can't remember whether he was in Washington then or still on Wall Street.)

I don't have to tell this audience that our current economic outlook is dire. We are entering a deep recession. It was born in America but now affects every country in the world. Our debt-ridden financial system and economic model have been discredited. In many ways, the Obama Administration faces a more difficult set of economic and related foreign policy challenges than the Hoover and Roosevelt Administrations did at the outset of the Great Depression.

In 1930, the US national debt was less than 18 percent of our GDP. Almost all of it was held by American rather than foreign investors. Our government had no unfunded obligations. We therefore had plenty of borrowing capacity on which to draw for Keynesian counter-cyclical deficit spending.

Today, our acknowledged national debt comes to about three-fourths of our GDP, and bailouts and stimulus packages are rapidly driving it toward 100 percent. About two-fifths of this debt has been borrowed from entitlement programs, like Social Security, government employee pension plans, set-asides for veterans programs, and the like, many of which are themselves technically insolvent. The other three-fifths are held by investors, about half of whom are foreign, many of them instrumentalities of foreign governments like Japan, China, and major oil exporting countries.

It is politically incorrect to do so, but honesty obliges me to add that, if the federal government applied the accounting principles used by corporations and state and local governments to itself, its unfunded obligations would be recorded as debt. The official explanation for this accounting exception is that we can always decline to pay Social Security, Medicare, Medicaid, veterans' benefits, and so forth, so they aren't really debt. I don't know about you, but I am not reassured by this explanation. These unfunded obligations now total more than \$60 trillion. Including them would bring our national debt to something well over \$70 trillion, or more than five times our current GDP. It would show our current budget deficit to be \$2 trillion or more. These numbers do not, however, serve the purposes of political spin, so you will rarely hear them mentioned in polite company. They haven't been mentioned since Lyndon Johnson changed the rules to understate the burden of the Vietnam War on the US economy. But they are not unknown to our creditors.

The fact is that we have kept huge amounts of debt off our books while running our government, paying for our wars, and financing our consumer society with credit rollovers – increasingly, rollovers from foreign lenders. The bailouts and stimulus packages we have recently conceived just repeat this practice. We have formulated no plans to pay for them. Instead, we intend to finance them with more borrowing. And we expect foreigners to continue to buy at least half the resulting growth in our ballooning national debt.

Amazingly, so far, so good. For the past month and a half, T-bills and the dollar have seemed to most investors like the only relatively safe places, other than the Japanese yen, to stash their money. In these circumstances, there hasn't been much of a problem selling government bonds, and the value of the dollar has actually risen against other currencies. But the panic will pass. The day of scrutiny by our current and prospective creditors will be upon us. The dollar will then rapidly decline. For the first time in living memory, resource constraints will compel the United States to choose between domestic and overseas activities, and between civilian and military priorities. These constraints will also force us to stop trying to do everything on our own and to seek partners to share the human and financial costs of global and regional order and energy security

The American people have just voted for change. That's good. But, I am sorry to say that, in the national interest, the Obama Administration and the 111th Congress must now actually produce change, and then persuade the world that it has occurred. Specifically, we must convince foreign investors that the

United States has done what is necessary to restore our country's creditworthiness. If we can't convince them of this, they won't continue to buy our debt, and we will have to print dollars to stay afloat instead. That way lies Zimbabwe.

Becoming creditworthy means cutting spending and raising taxes to show that we can and will bring our budget back into balance within a reasonable time. As Herbert Hoover inadvertently taught us, however, neither cutting spending nor raising taxes is a good idea in a recession, particularly one as severe as this one may be. So the most urgent task before the incoming administration will be to negotiate a financial workout plan with foreign lenders. Such a framework will be essential to assure us the lines of credit we need to put people back to work and to ease the pain of returning to prosperity with pay-as-you-go government.

This brings me to yet another dimension of our fiscal problems with foreign policy ramifications. When you look at the federal budget with an eye to cutting outlays, as President Obama has promised to do, you quickly discover that options are severely limited. Thirty percent of the federal budget is devoted to Social Security, Medicare, Medicaid, unemployment, education and other human resource programs. Unfunded obligations in this category of the budget are huge. The amount that we would have to set aside this year to ensure that we can pay for currently unfunded Social Security, Medicare, and Medicaid obligations alone is \$41 trillion. Far from cutting funding for this budget category, we should be increasing it.

Meanwhile, 18 percent of the budget goes to veterans' benefits and interest on past military spending. To cut either would be dishonorable and self-defeating. Eleven percent of the federal budget goes for government operations, including homeland security, law enforcement, international affairs, and non-military national debt. Hard to cut much out of that. Five percent is spending on physical resources like agriculture, transportation, energy, the environment, and other infrastructure. Bridges are already collapsing, highways are gridlocked, and there are man-eating potholes out there. Not much can come out of these programs. In fact, most Americans think we should be spending a lot more on them. (Doing so would put more people to work than handing out checks to buy Chinese consumer products at the local big box store.)

This leaves spending on current military activities, only a little over half of which are covered by our \$515 billion defense budget, with the rest of the funding authorities hidden like Easter eggs all over the rest of the federal budget. In the aggregate, military spending accounts for 36 percent of government outlays, or about \$965 billion. Roughly \$200 billion of this is for combat operations in Iraq and Afghanistan. About \$222 billion is for military research, development, and procurement. I hate to have to say this in Southern California, but, in practice, defense is the only part of the budget in which substantial cuts are feasible.

This unpalatable fact is unlikely to escape those we are trying to convince to lend us more money. Most, but not all of them – Arabs, Brazilians, Chinese, Europeans, Japanese, Russians and others – oppose our wars of choice. And some fear that they themselves are the intended targets of our military R & D and procurement. (By our own admission, some of them are.)

This raises a vexing question. Why should these foreigners lend us the money to bully or bomb them? If you know the answer, please put it in an envelope along with a résumé and mail to the Obama Transition team. They will welcome your help on this matter and may even make you Secretary of the Treasury. Just be sure to rule yourself out as Secretary of Defense. In the era of steep cuts in defense expenditures that now seems inevitable, wars of choice are unaffordable, and support for the defense industrial base will be problematic. Only constipated masochists with impeccable military backgrounds and no illegal alien cleaning staff should apply for the position.

A last word on the budget. Total federal outlays – before the bailouts, stimulus packages, and unemployment offsets became necessary – were budgeted at \$2.65 trillion. Of this, proposed nonmilitary expenditures came to \$1.21 trillion, or 46 percent. The other \$1.45 trillion was for past and present wars and military programs. That is a good deal more than military spending in all the rest of the world combined. The stated purpose of this huge defense effort has been to ensure unchallengeable global supremacy for the United States – to patrol a global sphere of influence in which others can act only with our permission or acquiescence, or at their peril. We must be able to protect or change regimes and override the sovereignty of foreign nations as we choose – without allies and without fear of serious opposition. Or so we have believed.

This vision of American hegemony has fit both the human rights and humanitarian agenda of liberal interventionists and the militarist agenda of neoconservatives. For both, the United States is "the indispensable nation" that stands higher, sees farther, and always knows best. This coincidence of arrogance explains past bipartisan support for our interventions in Somalia and Haiti, our willingness to bypass the United Nations in Bosnia and Kosovo, and the invasion of Iraq. It accounts for the current consensus on reinforcing military failure in Afghanistan and embracing Georgia and Ukraine.

A major problem with hegemony is, of course, that it generates its own antibodies. In time, foreign resistance brings it down. But nothing clears the mind of overweening ambition as abruptly as bankruptcy. We are not, of course, technically bankrupt – our creditors have not agreed to excuse our debts and there is no applicable international mechanism by which they can do so. But we are insolvent, which is good enough for government work.

We became the preeminent society on the planet not by force of arms but by the power of our principles and the attraction of our example. The effort to replace that preeminence with military dominion has failed. It has discredited us internationally and exhausted our armed forces while generating hundreds of millions of new enemies for our country. It has now all but broken us financially. It's time to ask whether military hegemony is a reasonable or feasible goal, and, if not, whether a less belligerent approach might assure our security more effectively, at a cost we can afford.

Of course, if all you have is a bomber, everything looks like a target. Unless something is done to beef up our diplomatic service, Americans will have to continue to look first to the use of force in our foreign relations, and our military will continue to be asked to do things that civilians can do much better and less expensively. There are more personnel assigned to military bands or in a single carrier battle group

than there are American Foreign Service Officers worldwide. The weapons of diplomats are words, and their power is their persuasiveness. Talk is cheaper than firepower and does less collateral damage, so it makes sense to try it before launching a military sucker punch. But even as we add another 92,000 billets to our armed forces, 12 percent of our diplomatic positions overseas remain unfilled, as do one-third of such positions in Washington, and there is no significant staff increase in sight. Staffing up for diplomacy is a requirement that must be added to the huge task of recapitalizing our military – replacing all the equipment we have worn out in Iraq and Afghanistan – and restoring readiness.

The alternatives to a military-based foreign policy all involve heavy reliance on diplomacy as part of a strategy of burden-shifting. They require the enlistment of allies to do their part in attending to common interests and values so that we do not have to do it all on our own. They involve the selective use of our strength on a restrained basis to buttress regional balances of power or to tip those balances back toward equilibrium when it is disturbed. They include taking as much or more care in deciding which enemies to make as in determining which allies and friends to cultivate. They imply caution before we act based on asking ourselves some basic questions, like: What's in this for us? What will this cost? How will this end?

They entail the development of grand strategy, in which our political, economic, and cultural strengths can complement our military power to advance and defend our interests abroad. Nowhere is there a better illustration of that than in Iraq and Afghanistan. More of the same won't do in either place.

Iraq's infrastructure now has been smashed, its domestic tranquility shattered, and a fifth of Iraqis – the equivalent of sixty million Americans – are displaced from their homes, driven into exile, or dead. Iraq resembles nothing so much as many of the American veterans who have served there: it is battered, embittered, and in physical and mental pain. The fact that the Iraqi polity has somewhat stabilized in this condition is better than the alternative. It may not provide much cause for celebration, but it has created conditions in which Iraqis are prepared to take their chances on getting along without continuing foreign occupation.

The Iraqis are demanding that we set a schedule for getting out of their country. They will meet with no argument about that from President-elect Obama, but withdrawal from Iraq will test the diplomatic skills of his administration. We owe it to our allies and ourselves to withdraw in a way that maximizes the prospect that Iraqis can restore peace among themselves. We must leave in a manner that reduces rather than enhances the Iranian hold on Iraqi politics our occupation facilitated, that denies al Qa`ida opportunities to reconstitute its battered franchise operation among Sunni Arabs there, and that restores Iraq as an element in a regional balance of power we can buttress from afar, with a minimal presence in the Persian Gulf and at minimal expense. The object of war is always to produce a better peace. It remains to be seen whether the Iraq war can meet this test.

Meanwhile, in Afghanistan and along the Afghan-Pakistan border, we are in a war of attrition, and we are losing. We need to recall the reason we went there in the first place. Our purpose was not to reform Afghanistan or to rectify our lack of attention to it after the Soviet defeat there twenty years ago. It was

to deny the use of Afghan territory to terrorists with global reach. That was and is an attainable objective. It is a limited objective that can be achieved at reasonable cost.

We must return to a ruthless focus on this objective. We cannot afford to pursue goals, however worthy, that contradict or undermine it. The reform of Afghan politics, society, and mores must wait. First things first. Our policies and programs toward that country must aim above all to reduce the likelihood of its involvement in terrorist attacks on the United States or Americans abroad. Bombing, strafing, seizing, and mercilessly interrogating villagers from a warrior culture do not support this objective. Nor do denigrating and seeking to erase aspects of Afghan culture we consider benighted – even if they are. A little collateral damage and disparagement can convert a lot of formerly harmless people into supporters of terrorism.

President-elect Obama has pledged to add many more American soldiers and marines to the 31,000 now in Afghanistan. This will strengthen our military effort there. But a strategy that continues to rely primarily on military means seems likely to deepen our confrontation with Pashtun nationalism, push the destabilization of Pakistan to a new stage, and promote the further spread of anti-American terrorism in the region and beyond it.

The purpose of our troop increase should not be to do more of the same. It should be to strengthen our hand for negotiations that accomplish the expulsion of al Qa`ida from the Afghan-Pakistan border region and then keep it out of both Afghanistan and Pakistan. Saudi Arabia has reportedly begun to broker such negotiations between the Taliban and the Afghan and Pakistani governments. Rumor has it that Saudi diplomats are also seeking the return of Osama Binladen to Saudi Arabia to stand trial under Islamic law. An outcome like this would be a major victory for us and all those who stand with us against terrorist extremists. We should apply all the military and diplomatic power at our command to its achievement.

Ending the wars in Iraq and Afghanistan on terms that serve our interests must be a first order of foreign policy business for our new president. It will open the way to the renewal of alliances and partnerships that are essential to our security, domestic tranquility, and – now, more than ever – our prosperity. But doing this won't be easy.

Our post-Cold War experiment with diplomacy-free foreign policy has cost us our global political leadership. Our disregard for international law and comity has inspired scofflaw behavior by others. Our betrayal of our values at Bagram, AbuGhraib, and Guantanamo has left us without credibility as a champion of human rights and the rule of law. Our efforts to unseat those brought to power by democratic elections we supported have earned us a reputation for unprincipled hypocrisy. Our invasions of Iraq and Afghanistan have shown our military reach and prowess while demonstrating the limits of our military strength to our enemies and devaluing its deterrent power. The panic of 2008 has now brought our financial system into disrepute.

Those who cannot live by their brawn or their wallets must live by their charm and their wits. America cannot lead if it does not listen. We have much to learn from the answers others have found to their own dilemmas. Often these have paralleled the serious problems in our current human and physical infrastructure – our education, health care, pension, and transportation systems. Our competitiveness is

being eroded not just by these problems but by the unwelcoming face we now display to foreigners and their ideas. We are a less open society than we were. We need to do better by ourselves.

The United States has been blessed with a vast land of uncommon beauty, rich resources, and a diverse population united by the democratic ideals of our founders. We are famously optimistic and open to change. We have a resilience and capacity for self-renewal that has been the envy of the world. Now we must once again demonstrate these qualities.

Our values as a nation are our greatest asset, but they are only as strong as our practice of them and only as influential as our openness to foreign visitors. The best way to spread democracy, good governance, regard for human rights, and the rule of law is to exemplify these virtues both at home and in our behavior abroad. The surest way to protect the weak from the mighty is to insist that all nations, including our own, must follow the same rules. The most effective way to keep the peace is to work respectfully with others to address their concerns by peaceful means. We cannot foster respect for our own sovereignty by disrespecting that of others. We cannot assure prosperity without the active cooperation of the world's other major economies.

We have just voted for change at home, but we also need it abroad. The institutions our country crafted for the world after World War II are no longer up to the job. We must reinvent them. We cannot do this on our own, nor can we dictate how it should be done. We require the cooperation of many nations.

When he takes office in a little less than ten weeks, President Obama will have his work cut out for him. He will lead a weakened country in a world in which the power of other great powers is rising in relation to our own. He can succeed only if all of us are prepared to put the country ahead of ourselves – to be patriots. In our own interest that is what we as Americans must now be. If Barack Obama fails, we all fail. Together.

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