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Economic Security: Neglected Dimension of National Security?

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By

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The Economic Element of National Power

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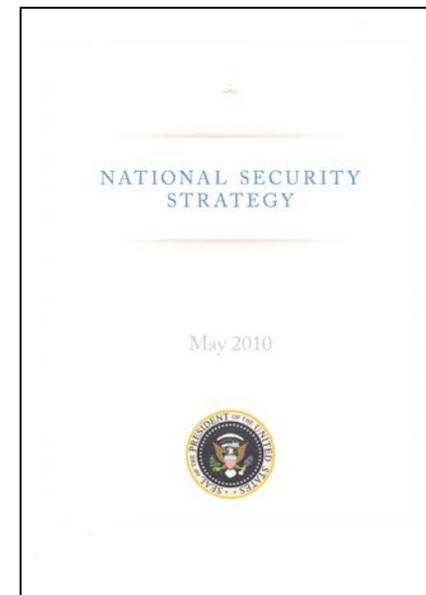
Credit: Mark Foulon, ICAF Econ Dept.

Growing debt – a key national security concern



“...We cannot grow our economy in the long term unless we put the United States back on a sustainable fiscal path...”

National Security Strategy of the United States May 2010



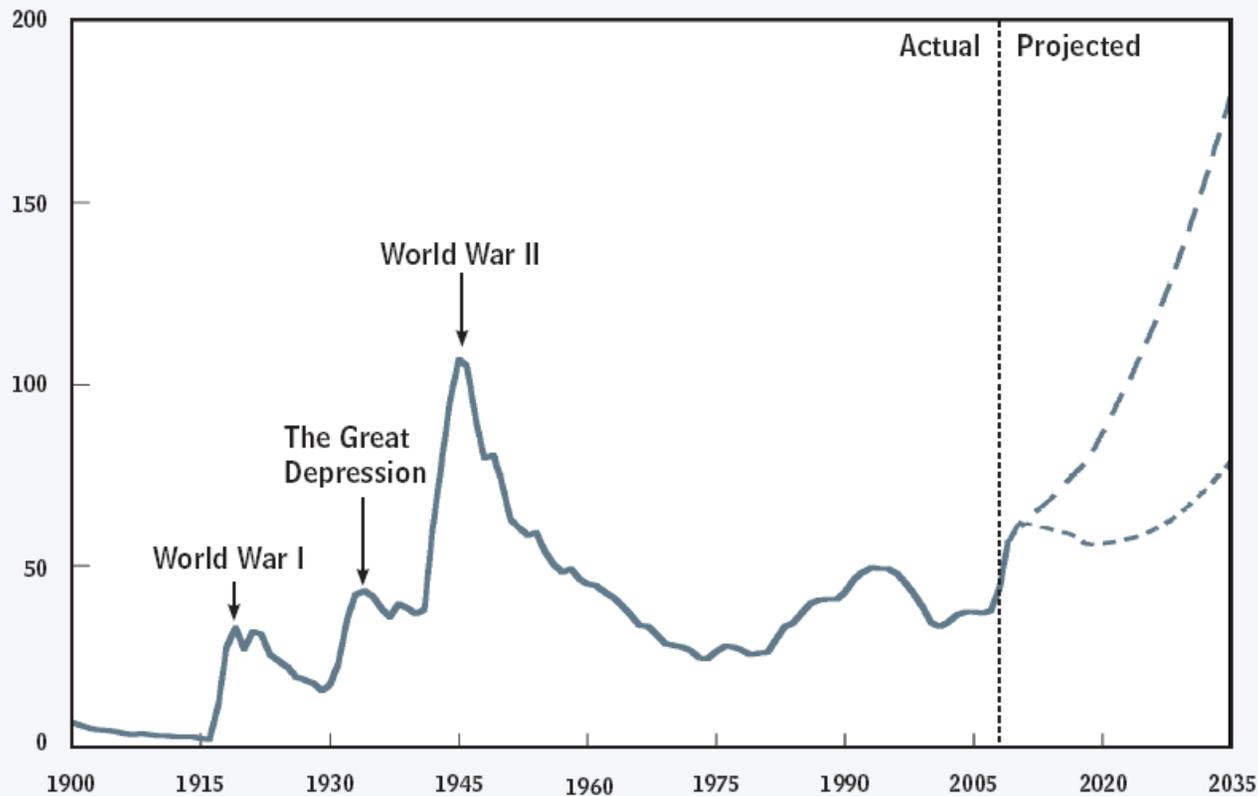
“...I believe that the biggest national security threat we have is our national debt ...”

Quoted at Fort Bragg “All Hands Call” 2 June 2010 and Navy SPAWAR “All Hands Call” 3 June 2010

The key is the **growth of debt** – resulting from future obligations

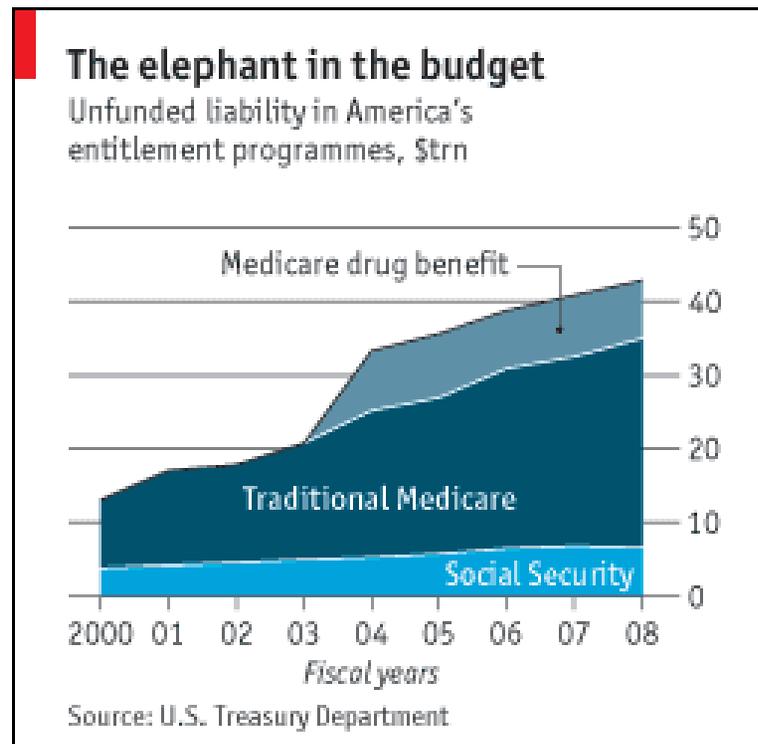


U.S. debt
Percentage of Gross Domestic Product



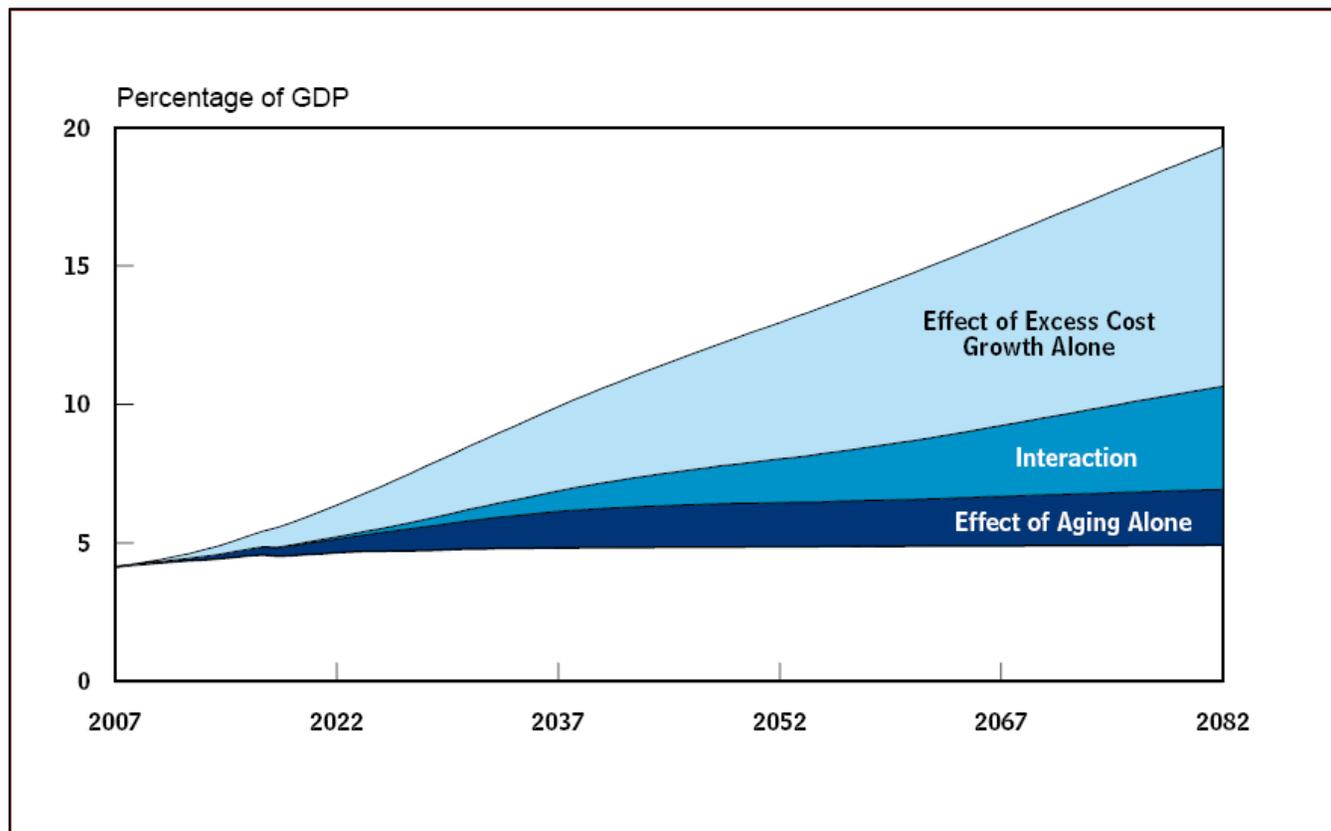
Source: “The Long-Term Budget Outlook, CBO June 2009

... arising from government health care programs ...



Source: *Economist*, January 10, 2009

... exploding because of the cost of treatment



Source: Congressional Budget Office:

<http://www.cbo.gov/ftpdocs/97xx/doc9748/09-16-2008-Stanford.pdf>

Debt impacts U.S. national security in three ways



1. America's ability to lead.



2. America's ability to pay for national security



3. The ability of the economy to produce the goods and services needed for national security





1. U.S. credibility

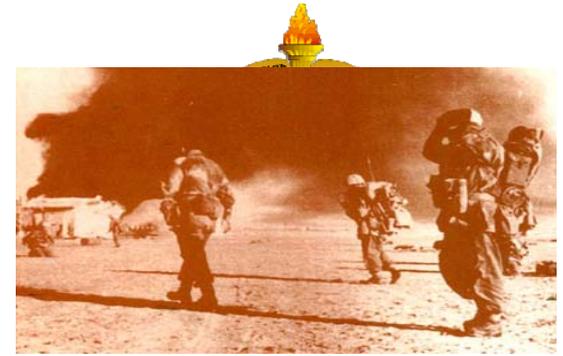
- U.S. blamed for financial crisis and perceived as having no plan for deficits
- Affects all aspects of U.S. leadership



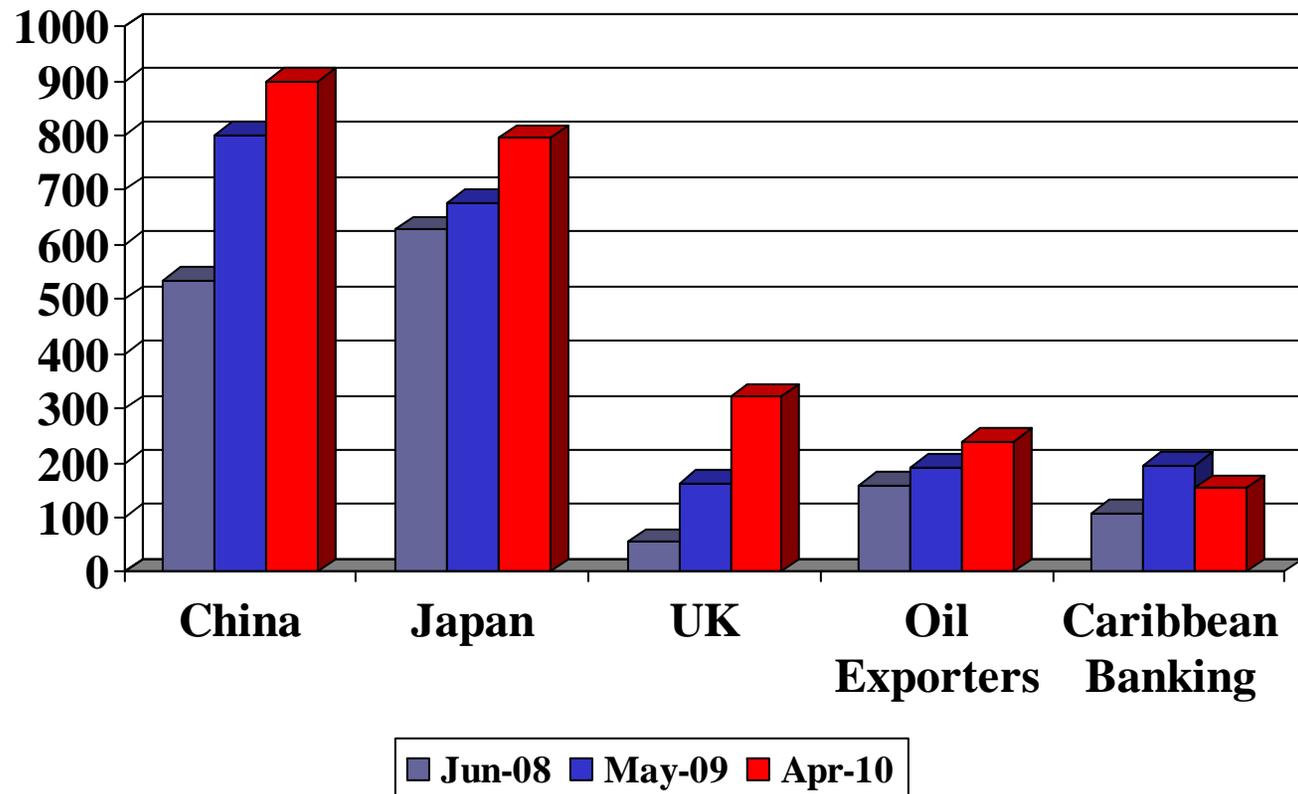
1. U.S. willingness to engage

- When economy is in deep recession, public has lower tolerance for foreign engagements
- Sustainability in Afghanistan/Pakistan at risk
- Pressures to reduce overseas presence

1. Foreign ownership of U.S. debt is increasing



Holdings of U.S. Treasury Securities, \$ Billions



Sources: Wayne M. Morrison and Marc Labonte, "China's Holdings of U.S. Securities," *Congressional Research Service*, July 30, 2009; *Wall Street Journal*, March 16, 2010; "Major Foreign Holders of Treasury Securities," U.S. Department of the Treasury



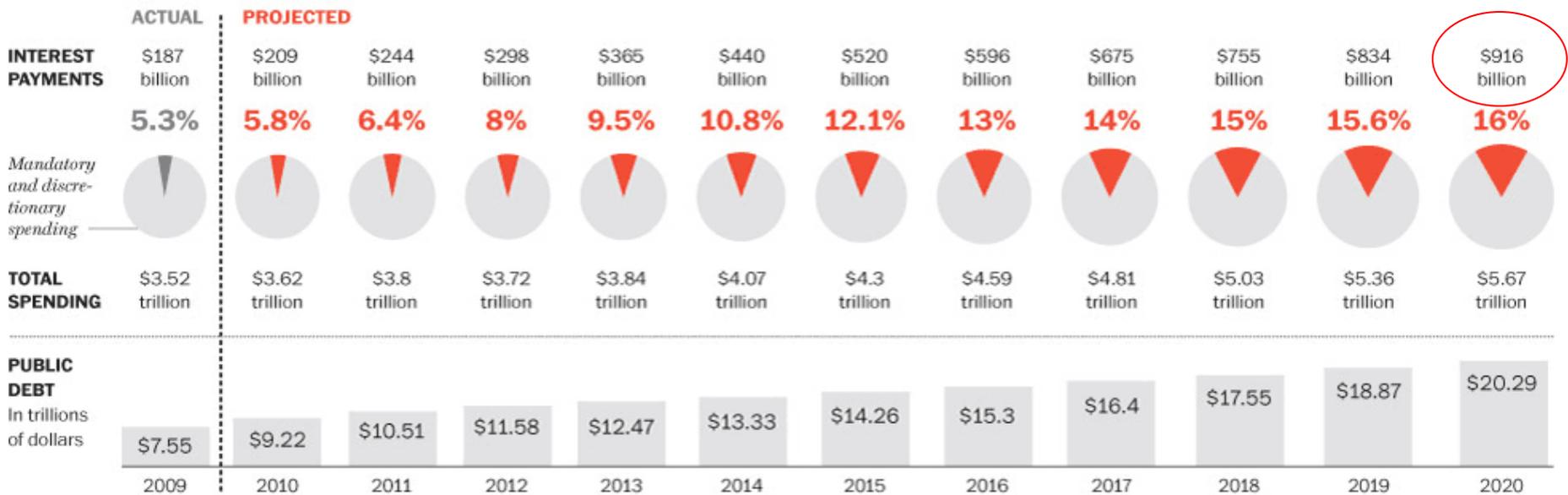
1. But foreign owners of U.S. debt do not have coercive leverage

- China owns 10% of U.S. publicly held debt
- If China stops buying U.S. treasuries, dollar declines and China's assets lose value

2. Interest is poised to surge as a share of the budget



Interest payments as a percentage of annual federal spending

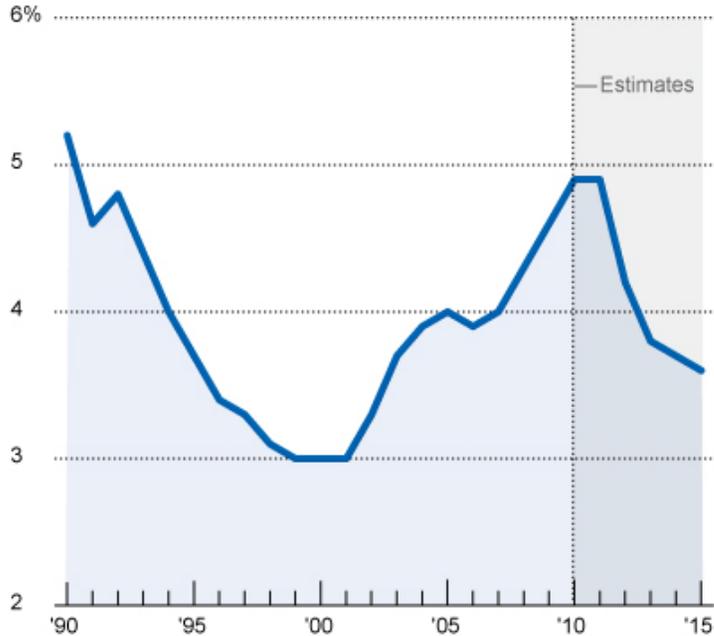


Even assuming interest rates remain low!

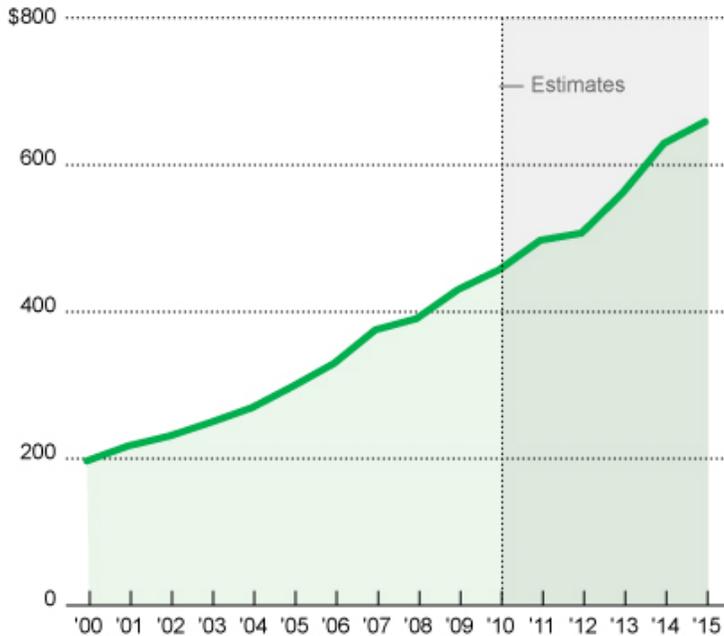
2. Defense and Medicare on competing trajectories



Defense Spending, as a percentage of GDP



Medicare Spending, in billions



Source: Office of Management and Budget

Source: *Wall Street Journal*, February 1, 2010



2. Growing pressure on defense

- DOD only 4.8% of GDP, but \$739B
- Pressure on defense top line, plus:
 - Reconstitute force
 - Health and pensions

3. Defense Industrial Base could be weakened



- U.S. manufacturing could slow
- Industrial mobilization potential
- Private-sector R&D



Debt and Growth

- Debt/GDP ratio key
 - Limit pace of debt growth
 - Grow GDP faster
 - Economic growth critical for long term



Imagine a world ...

- Imagine U.S. private sector with Australia's fiscal policies
- U.S. would be stronger politically, economically, and in national security terms



Mechanisms

- Battlefield littered with bodies
 - Budget committees, paygo
- BRAC not a good model
 - Fast track closer but problem of future commitments
 - No single crisis (frog boiling gradually)
- How do we tie ourselves to the mast?
- Challenge to our political system