

Fiscal Fetters

The Economic Imperatives of National Security in a Time of Austerity

Mark Duckenfield

On 16 May 2011, the US Treasury ceased borrowing money to conduct its operations when Congress and President Obama reached an impasse over raising the debt ceiling. Faced with this slowly unfolding political and economic crisis, many American and foreign observers felt compelled to ask themselves whether it was the harbinger of an impending fiscal and financial apocalypse. If the financial integrity of the United States required serious reductions in spending, would the steps necessary to ameliorate the country's budgetary woes have consequences for its foreign and security policies? Resolving these fiscal pressures confronts US security policy makers with two unpalatable prospects—a reduction in resources available for the overseas military component of American policy well below the high levels available after the September 11 attacks, or a reduced willingness and inability to pursue an activist security policy stemming from the increasing costs of funding ever-higher government debt burdens. It also presents the spectre of the United States facing a future “Suez moment,” where its military commitments are abruptly curtailed, perhaps under foreign or financial pressure, just as Britain and France's military seizure of the Suez Canal from Egypt foundered in 1956 when confronted with the fiscal realities of their relative economic decline.¹ The most viable option for sustaining current American interests in a time of diminished means and avoiding a future geopolitical triage is a resurrection and expansion of the Nixon Doctrine—which transferred the primary burden of their

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own defense onto the United States' East Asian allies during the Vietnam War—not only in the Pacific but in the Middle East and Europe as well.

In 1969, early in his first term of office, Pres. Richard Nixon responded to the ongoing conflict in Vietnam and growing budgetary pressures by laying out a framework designed to draw down the number of American troops in Vietnam, recalibrate US security commitments throughout East Asia, and ultimately reduce the cost to the United States in troops and money of providing security in Southeast Asia. Nixon pledged to retain treaty obligations as well as continue to provide a nuclear umbrella over regional allies, but he eschewed the large-scale use of American ground forces. Henceforth, Nixon told the nation in November 1969 that the United States would rely upon local allies to provide the predominant number of ground troops in any armed conflicts in their countries. This had the goal of conserving American manpower, sharing responsibility more broadly with allies, and ultimately shoring up domestic support for overseas operations. The “Vietnamization” plan, already underway when Nixon made his speech, was accelerated, and the American troop presence in South Vietnam dropped from 540,000 in January 1969 to 175,000 by 1971 and 95,000 in the first half of 1972.² The withdrawal of US ground forces was completed in 1973.

The disheartening and demoralizing defeat of South Vietnam in 1975 did little to alter the extent of US reliance on air and naval power rather than land power in the region. Indeed, defeat in Vietnam fueled the movement away from an Army based on draftees and accelerated the transition to a much more professionalized force. The subsequent military reorientation surrounding the withdrawal from Vietnam led to a reformation of US security policy that culminated in creation of the all-volunteer force.³ This strategic transformation of its military played to US strengths in capital-intensive warfare and technological innovation while pivoting away from the manpower-intensive strategies epitomized by the politically unpopular draft.

In 2012, the United States faces similar strategic challenges. The major counterinsurgency in Iraq has drawn to a close, and the Obama administration is looking for a strategy for withdrawing the bulk of US combat forces from Afghanistan in the near future. The human and monetary costs of prolonged counterinsurgency operations have made such interventions politically unpopular and fiscally unattractive. Still, the United States remains committed to a large number of allies and has interests in

the political and military stability of many regions of the world. Advancing these interests and sustaining these commitments need to be squared with a sustainable fiscal framework.

This article draws together two crucial policy areas—national security strategy and economic policy. Successful interaction of these two policy spheres would simultaneously protect America's prosperity and promote its political and economic interests around the world. But herein lies the real dilemma—How can the United States afford these policies in an age of austerity? How can such a strategy be funded in the wake of the global economic crisis? How can policymakers justify this at a time when there is less money available to fulfill domestic social obligations?

To address these questions, we examine the US fiscal condition with a focus on the consequences for security budgets that will stem from future spending restraint or financing debt. Next, we argue the relationship between economics and national security and how it is embodied in the current global economic system and discuss primary challenges the United States faces, along with its formidable advantages. Finally, this article brings these themes together to argue that to avoid a moment of “geopolitical triage,” the United States will need to better align its military commitments to more closely match available resources, especially in manpower-intensive operations. As part of this strategy, the United States should expand its efforts to support multilateral security and economic institutions and better integrate our allies and other countries into the effective management of regional security issues and the governance of the international economy.

Economic prosperity is at the heart of US national security. The Obama administration's May 2010 *National Security Strategy* calls attention to the degree to which our international influence and our ability to obtain political outcomes depend upon our economic success. The *National Security Strategy* highlights the central role of economic strength to the retention of our geopolitical position in the wake of the economic crisis, arguing in its introduction that “at the center of our efforts is a commitment to renew our economy, which serves as the wellspring of American power.”⁴ It elaborates later in the document that “our prosperity serves as a wellspring for our power. It pays for our military, underwrites our diplomacy and development efforts, and serves as a leading source of our influence in the world.”⁵ A growing, thriving economy provides our government with more revenue, greater flexibility in how to expend resources, and fewer constraints on its spending priorities, military or otherwise. In contrast, a

stagnant economy finds our government with fewer resources at its command, greater constraints on how it spends money, and difficult choices between foreign and domestic priorities.

There is a tension, of course, between creating a virtuous circle of prosperity, security, and more prosperity. Policymakers need to tread the narrow path between the Scylla of security overstretch, whereby they expend too many resources on security to the detriment of domestic economic and social priorities, and the Charybdis of underprotection, whereby the international community underinvests in securing the global commons, and international collective goods are underprovided to the detriment of international stability.⁶ Providing the institutions for a stable international economic environment and the military forces for a stable security situation is not cost free, and it is also difficult to exclude those who do not contribute from the benefits of such a system.⁷ Countries have an incentive to “free ride” on the contributions of others, reaping the benefits of order and stability without bearing the burden of supporting the system.⁸

At the same time, the *National Security Strategy* does little to reconcile the competing and often conflicting demands of international political influence, security, prosperity, and values promotion. No matter how much US policy makers might desire international victories on the cheap, the extent of international commitments and aspirations are—under present conceptions of American national interests—extensive, expansive, and expensive. At the same time, the government’s long-term domestic commitments are no less costly. Setting aside the temporary, short-term increase in budget deficits to deal with the ongoing economic slowdown, the United States faces serious fiscal challenges over the medium and long term, as rising costs of health care—especially for the elderly—will demand greater and greater resources from the federal government.

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In December 2010, Alan Simpson and Erskine Bowles, the co-chairmen of the National Commission on Fiscal Responsibility advocated freezing discretionary spending, including base defense expenditures, at FY 2011 levels through FY 2020.⁹ The Budget Control Act of 2011 is equally draconian. It put in place caps on discretionary spending (both security and nonsecurity) and created the Congressional Joint Select Committee on Deficit Reduction, the so-called Super Committee, to negotiate a 10-year

plan for \$1.5 trillion in fiscal consolidation by January 2012. The failure of the Super Committee to come to agreement promises to trigger mandatory reductions of \$1.2 trillion—including interest savings—in discretionary spending between 2013 and 2021. Half of these cuts would come from security expenditures and half from other discretionary spending, although overseas contingency operations are not subject to the caps.¹⁰ The defense portion of these potential automatic cuts is potentially as high as \$55 billion per year (\$492 billion over 10 years), or between 8.5 and 10 percent of planned defense spending over the period.¹¹

Limits on what had previously been relatively unfettered defense spending are already beginning to materialize. The Defense Department's 2013 budget proposal puts a realignment of force structure and procurement at the heart of the ongoing fiscal retrenchment. Under current proposals much of the personnel reductions will come from the manpower-intensive services—the Army will see a 15-percent reduction in the active force from 562,000 to 490,000 over the next five years, and the Marines will reduce their numbers by 10 percent to 182,000 from 202,000 today.¹² The Navy will drop only 6,200 Sailors to 319,500, a 2-percent reduction, and the Air Force will be reduced by 1.3 percent, or 4,200 Airmen, for an active strength of 328,600 in 2017.¹³ Over the next five years, the department proposes that the Navy decommission seven existing cruisers and two landing ships and the Air Force be reduced by 303 older aircraft, primarily reserve units.¹⁴ Base budgets will also be affected by reductions in procurement, primarily falling on the Air Force, which bears \$2.6 billion of a total \$5.0-billion procurement reduction. This is primarily related to terminating or restructuring several expensive aircraft and aerospace projects.¹⁵

The Simpson-Bowles proposal for a near freeze in overall security spending—endorsed in general terms by several presidential candidates—provides \$981 billion less than the president's FY 2013 budget between 2012 and 2020, or just over a further \$100-billion reduction per year.¹⁶ Such a proposal could imply an active duty Army of less than 450,000 Soldiers, a Marine Corps of 150,000, a fleet with only 10 aircraft carriers, a 50-percent reduction in the number of F-35s purchased, and a reduction of nearly 20 percent in the DoD civilian workforce.¹⁷ Fulfilling this reduced budget target of \$700 billion in security expenditures in 2020—as opposed to President Obama's target of \$820 billion in the same year—could include cancellation of a range of weapons systems: the V-22

Osprey, the expeditionary fighting vehicle, the Marine Corps version of the F-35, the future maritime prepositioning force, the joint tactical vehicle, the ground combat vehicle, and the joint tactical radio.¹⁸

The consequences of erosion in America's economic and fiscal prospects over an extended time frame have equally grave implications for its national security. This theme has been elaborated on at the highest levels of the armed services. ADM Michael Mullen, the former chairman of the joint chiefs, argued in multiple public appearances that "the most significant threat to our national security is our debt. . . . [T]he strength and the support and the resources that our military uses are directly related to the health of our economy over time."¹⁹ Even after the August 2011 debt deal, Mullen still had great concerns about the debt.²⁰ His successor, GEN Martin Dempsey, while not placing the debt as the primary security threat, agrees with his predecessor that "the national debt is a grave concern."²¹

To pull the economy out of the financial crisis and stimulate a recovery, the United States has undertaken an expensive short-term bailout of the financial sector and launched a moderate stimulus package of federal spending accompanied by tax cuts and credits. The inevitable consequences of a recession and a high level of joblessness have also confronted the federal government with lower revenues at the same time it is called upon to provide greater expenditures for unemployment. The short-term fiscal imbalance has widened dramatically, albeit temporarily, before declining to an annual deficit estimated at 8.7 percent of GDP for FY 2011.²² Short-term countercyclical spending is by no means incompatible with long-term fiscal consolidation, and the president's proposed 2013 budget takes the deficit back to a longer-term average of just under 3 percent of GDP by the middle of the coming decade,²³ but even this level of fiscal imbalance still promises serious economic consequences. Over the long term, rising debt loads will crowd out other federal spending and could undermine the international position of the dollar as the world's reserve currency.²⁴ This in turn could result in higher interest rates, reduced economic growth, and lower standards of living for Americans.

Figure 1, from the Congressional Budget Office, illustrates a variety of possible fiscal paths to the future. The "worst-case" scenario of expanded deficits, higher debt loads, and deteriorating public finances occurs under the CBO's alternative fiscal scenario, whereby popular tax provisions are extended and current legislation aimed at cost-containment of entitlement programs are repealed. On the one hand, that scenario is probably

overly alarmist; however, even the so-called baseline scenarios with these provisions retained shows a slight weakening of the government's budgetary position over the next several decades as the population ages and health care costs rise.²⁵ Only the severe cuts and sequestrations promised in the Budget Control Act (BCA) of 2011 make any meaningful dent in the debt load in the medium term. This will have direct consequences on the amount of money the federal government will have available to spend on defense in the coming years.

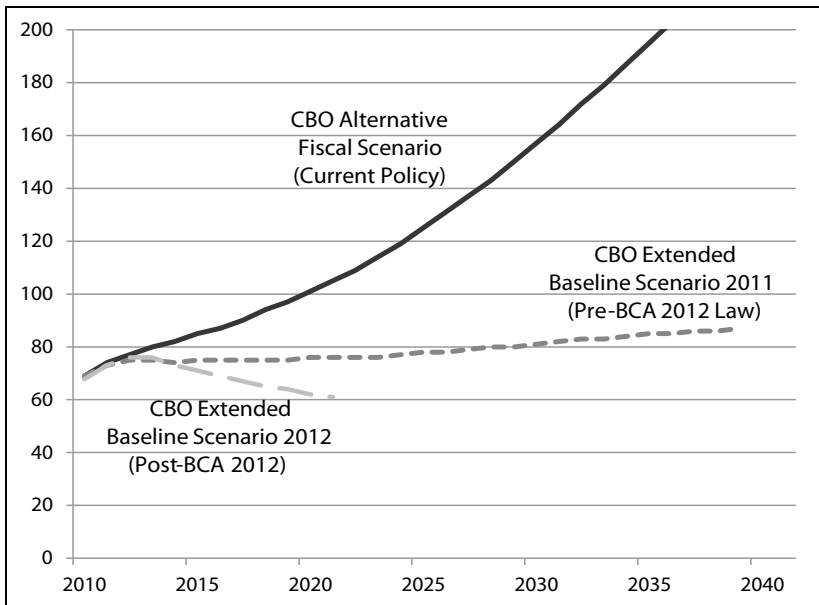


Figure 1. Debt as a percent of GDP, 2010–2040

The Extended-Baseline Scenario generally assumes continuation of current law. Longer-term CBO projections for the pre-Budget Control Act 2011 are presented as are the CBO's medium-term projections through 2022 including sequestrations under the Budget Control Act of 2011. The Alternative Fiscal Scenario incorporates several changes to current law considered likely to happen, including renewal of the 2001/2003 tax cuts on income below \$250,000 per year, continued Alternative Minimum Tax (AMT) patches, continuation of the estate tax at 2009 levels, and continued Medicare "Doc Fixes." It also assumes discretionary spending grows with gross domestic product (GDP) rather than inflation over the next decade, that revenue does not increase as a percent of GDP after 2020, and that certain cost-reducing measures in the health reform legislation are unsuccessful in slowing cost growth after 2020.²⁶

Under budget caps negotiated as part of the Budget Control Act of 2011, total federal spending will drop by 1.1 percent of GDP—from

25.1 percent (FY 2010) to a projected 24.0 percent—over the course of the coming decade. Despite this proposed shrinking of government, some areas will see growth between now and 2021: Medicare (+0.5 percent), Medicaid (+0.5 percent), Social Security (+0.5 percent), and interest on the national debt (+1.4 percent). The decreases to compensate for the 4.0 percent of GDP represented by these growing expenditures and the reduction in the size of government are predominantly in discretionary expenditures. Nondefense discretionary programs (-2.1 percent) and defense (-1.1 percent) take the brunt of the reductions compared to other mandatory programs (-0.8 percent). It is important to note that much of the latter reduction will result from reduced demand on income support programs, such as unemployment payments, food stamps, and housing assistance, due to improved economic conditions.²⁷

Even at the same level of overall expenditure, interest payments begin to crowd out spending on other government programs, reducing the range of resources available to policymakers in the future. Deficient tax revenues, health care spending, interest on the debt, and defense spending are the four horsemen of the fiscal apocalypse.

Within this environment, discretionary spending is particularly vulnerable to cutbacks. Overall, discretionary spending is projected to drop from 37 percent of government spending to 26 percent at the start of the next decade.²⁸ The brunt of the declining budget share falls on the nonsecurity side of the discretionary budget, which will see its share slashed from 18 percent to 12 percent over the next 10 years.²⁹ The security share of the budget gets off relatively lightly compared to the rest of the discretionary budget. Defense is projected to decline from 19 percent of the budget in 2011 to 14 percent by 2021, which comes out to about 3.0 percent of GDP.³⁰ The Obama administration expects to have wound down operations in Iraq, Afghanistan, and Libya by then, but these figures still allow for \$44 billion in contingency operations annually through 2022, so there is further room to give.³¹ Nevertheless, the discretionary side of the budget, which includes security expenditures, is under serious pressure.

In 2004, Niall Ferguson argued, “Americans like security. But they like Social Security more than national security.”³² Opinion polls have repeatedly supported the contention that the American public—regardless of party preference—prioritizes spending money on social programs over national security expenditures (table 1).

Table 1. Social and national security priorities, 2011

Question: “If you had to choose one, which would you chose to cut in order to cut government spending?”

	All	Democrats	Independents	Republicans
Military	55 %	66 %	55 %	42 %
Medicare	21 %	10 %	24 %	31 %
Social Security	13 %	11 %	15 %	17 %
No Opinion	10 %	13 %	7 %	10 %

(*New York Times*/CBS News Poll, 20 January 2011)

Unlike the national security budget, Social Security is funded by its own system of taxation and the Social Security Trust Fund. According to the latest report from the Social Security trustees, the combination of these two funding streams is sufficient to fully fund the federal government’s retirement obligations through 2036.³³ However, the subsidy that Social Security surpluses have provided to the federal budget for the past 30 years is ending, and that puts additional financial pressure on discretionary spending. Medicare—funded by payroll taxes, premiums, and a trust fund—will start to become a drag on the general government budget sooner, as its trust fund will be exhausted in 2024, and it will increasingly need to draw on general receipts to fund its operations after that date.³⁴

The slow-motion health cost crisis affects national security both from above and below. By claiming an ever greater share of gross national product and government expenditure, it crowds out all other budget items. Security is not the most affected, but substantial reductions could threaten core defense expenditures and jeopardize the successful implementation of various defense programs over the medium and long terms. At the same time, the Department of Defense (DoD) is generating its own internal health care crisis. Within the defense budget, the cost pressures of medical care are forcing limitations on other parts of the department. In May 2010, Secretary of Defense Robert Gates told an audience at the Eisenhower Library that “health care costs are eating the Defense Department alive.”³⁵ In 2005 the Defense Budget Board noted that the military health care system was costing \$34.2 billion, a figure that it ominously predicted would reach \$50 billion per year in 2015.³⁶ The department was able to achieve that dubious target four years ahead of schedule in 2011, when nearly 10 percent of the base DoD budget went for health care.³⁷

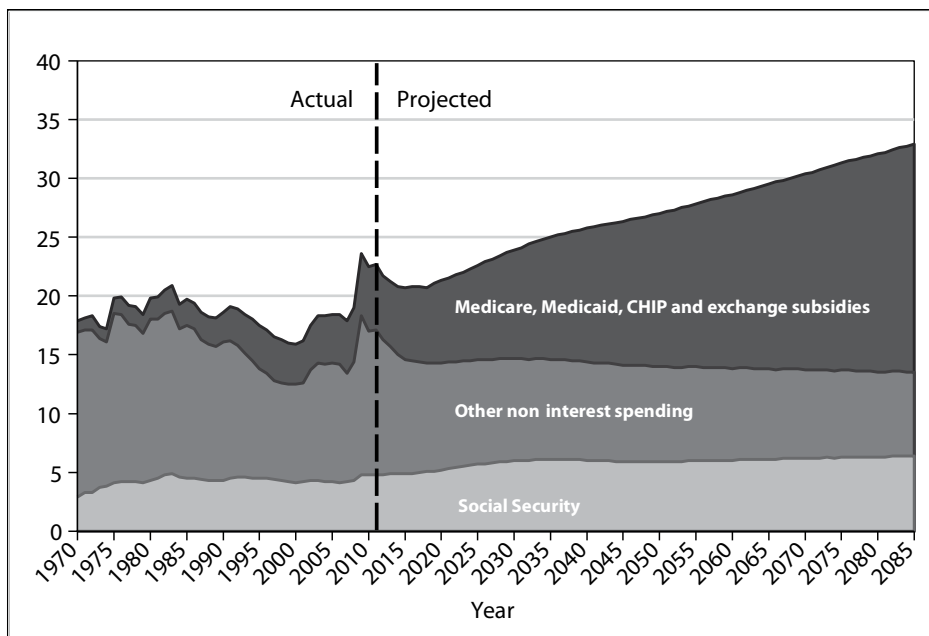


Figure 2. Primary spending by category

(Alternative Fiscal Scenario from CBO dataset [2011], <http://www.cbo.gov/doc.cfm?index12212>)

The rising cost of medical care within the operations budget is limiting the government's ability to provide funds for other military activities. Similarly, military pensions are also a substantial drain on defense resources. While private sector employers make pension contributions at 4–12 percent of their employees' salaries, the cost of adequately funding military pensions is the equivalent of 75 percent of salary, for a total of \$46 billion in 2011.³⁸ Taken together, medical care and retirement contributions were \$96 billion in FY 2011, more than 17 percent of the entire defense budget. The Military Retirement Trust Fund will disburse over \$49 billion in FY 2012, a figure that is likely to grow to over \$75 billion in the course of the decade.³⁹

Military entitlements also extend to veterans who served in Iraq and Afghanistan. As of December 2006, almost half of the 1.4 million active duty and reserve members of the armed forces who had served in Iraq and Afghanistan were eligible for health care through the Veterans Administration (VA).⁴⁰ Both the number of personnel who have served in Afghanistan and Iraq and those who have become eligible for VA services have increased in the six intervening years. Furthermore, the need for health services for veterans increases with age. The peak in

VA spending on veterans of the Second World War peaked in 1992, nearly half a century after the end of that conflict.⁴¹ Seen in this light, VA expenditures on veterans of the Iraq and Afghan operations will be a long-term entitlement time bomb and will likely be at their highest levels after the 2050s.

Recently, an independent assessment of American defense spending in the coming years presented a variety of options for reducing procurement and personnel, but ultimately concluded that “it will be difficult to generate considerable savings without addressing military personnel costs, which include not only salaries but also a range of retirement and health care benefits.”⁴² The costs of military entitlement programs, like civilian entitlement programs, are politically difficult to rein in, as both the Bush and the Obama administrations have discovered in their unsuccessful efforts to modestly raise premiums for Tricare, which remain at the same *nominal* level they were in 1995!⁴³ The Obama administration has made minor increases to fees for new Tricare enrollees, but it is unclear whether Congress will approve more broad-ranging cost savings.⁴⁴ If these trends continue, Soldiers in 2020 might find themselves operating increasingly outdated equipment to free up resources within the defense budget for their health and retirement costs.

The United States is in no risk of becoming the next Greece, the soft underbelly of the Euro Zone, as the negative interest rates on inflation-indexed US Treasury bonds out to seven years attest. However, with economic recovery, these interest rates will increase to more normal levels. The rising debt load over the long term and the cost of servicing that debt, coupled with increasing government health care costs, will force policymakers to choose between three unpalatable options if they want to put the budget on a sustainable trajectory:

1. Raise federal revenues as a share of GDP,
2. Make major changes to entitlement programs for the elderly, or
3. Reduce the role of the federal government relative to the size of the economy.⁴⁵

Of course, these options are not mutually exclusive; however, the changes that Congress and President Obama have already agreed to in the August 2011 budget compromise indicate that discretionary spending,

including defense, will receive a large proportion of any budget cuts over the medium and long term. Whatever the exact outcome of the debate over the share of budgetary consolidation between tax increases and spending cuts across different programs, it is clear that limits on defense spending will be a contributor to any fiscal consolidation. The unusually high level of defense expenditures in the wake of the September 11 attacks allowed for an enlarged defense budget, where few hard choices had to be made between competing priorities. Those days are over. The difficult decisions about budgetary priorities will have consequences for how the United States is able to pursue its national and economic security interests in the years ahead.

Economics and National Security: The American International System

The US national security strategy does not take place in isolation from other policy areas. It is intrinsically linked to operation of both the international political and economic systems. The international economic system of trade and monetary affairs was largely constructed by American policy makers after the Second World War. The American system has pillars embedded in the economy and political system, both domestically and internationally, and is the model the United States has exported to its allies and held up as an example to others. At the domestic level, there is an emphasis on the market as the central form of economic organization, and it is paired with democratic constitutional governance, a welfare state, and independent central banks. At the global level, there are a range of multilateral economic institutions for the governance and management of international commerce, monetary relations, and development: the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank.

The economic superstructure, both in its domestic and international incarnations, is designed to support and facilitate the operation of the free-market economy. In the domestic arena, the welfare state itself is designed to cushion some of the harsher blows of the free market and thus preserve popular support for a broad market-based economy.⁴⁶ At the international level, organizations like the IMF and the World Bank help provide assistance to countries in economic difficulty so they do not defect either by

pursuing “beggar thy neighbor” policies or isolating themselves from the international system of free trade and free capital movements.⁴⁷

On top of all this is the international security superstructure, with institutions such as the United Nations and the North Atlantic Treaty Organization. NATO, in particular, has served as the central security umbrella for the United States to provide political security for its allies. NATO provided the defense that European countries needed to continue to develop their own market economies free from Soviet domination during the Cold War. NATO, and bilateral American security relationships in Asia, provided the secure conditions that enabled the West to fully develop a thriving economic base. In this regard, while both the security and economic superstructures themselves protect the economic base and civil society, they also have a reciprocal relationship with them.

The centrality of the United States to the primary institutions of international economic governance, the IMF and the World Bank, has provided American policymakers with substantial sway over foreign economic policies. Both of these institutions are located in Washington; indeed, they are almost within sight of the White House and the US Treasury. Geographic proximity to the headquarters of these institutions makes for a great deal of influence, as do structural factors such as the US veto in each body and the fact that the vast majority of the IMF and World Bank staffs hold economics degrees from American universities. IMF policies have traditionally corresponded quite closely to both American security interests and those of the American financial sector—so much so that some have labeled the interlocking relationships a Wall Street–Treasury–IMF complex.⁴⁸ The power of this network of institutions is quite pervasive. If a country needs international financial assistance, it usually must come to Washington for aid. As a result, these institutions, particularly the IMF, have become notorious among recipient nations for the conditionality of their loans that emphasize free-market, neoliberal solutions to financial and fiscal crises.

This political and economic arrangement was the one that prevailed in the Cold War, providing unmatched economic prosperity for the West under a multinational security system led by the United States. By 1989, not only were Americans more than twice as wealthy as Soviet citizens, but also other key participants in the American system were much better off than comparable nations. West Germany outpaced East Germany in per capita income by at least 50 percent, South Korea’s was four times that

of North Korea, Spain had over twice the per capita GDP of Poland, and so on.⁴⁹ With the fall of the Berlin Wall and the end of the Cold War, the great ideological confrontation ended with the general acceptance of the superiority of market economies, democratic governance, Western-style welfare states, and free trade. Instead of being a capitalist American system in competition with a state-socialist Soviet system, we have had what Paul Williamson, a former chief economist of the World Bank, has coined “the Washington Consensus.”⁵⁰

Being the current leader of the international system and creator of all its major institutions is an immense structural advantage that the United States still enjoys over 20 years after the end of the Cold War. In these two decades, the developed economies of the world, particularly in Asia, have succeeded within the framework of the international economic system. The transfer of manufacturing capacity to the developing world has accelerated since 1990, and as a consequence, the wealth of the world is shifting. Presently, there is a rough balance of global GDP between the wealthy members of the Organization of Economic Cooperation and Development (OECD)—which includes Mexico and Turkey alongside the United States, the European Union, and Japan—and the developing world, including China, India, and Brazil. Ten years ago, the OECD countries had 60 percent of world GDP. By 2030, the developing world will have moved from parity with this broad definition of the developed world and will itself be approaching 60 percent of world economic output.⁵¹

While many developing economies have benefited from this shift, popular and scholarly attention has tended to focus on the implications of economic change for the large, populous developing economies. Researchers for the investment bank Goldman Sachs coined the term *BRIC* to describe the large-population economies of Brazil, Russia, India, and China, whose growth over time threatens to overtake that of the United States and the rest of the G-7.⁵²

Keeping in mind that economic projections into the future can be problematic, Goldman Sachs’ projections provide a useful starting point for envisioning the future state of the world’s major economies. According to the IMF, the United States, with a GDP of \$14.5 trillion, is currently the world’s largest economy, with the Chinese economy over one-third as large at \$5.9 trillion.⁵³ The Japanese economy (\$5.5 trillion) is roughly on par with the Chinese, and the remainder of the world’s largest

economies are close US allies in Europe such as Germany (\$3.2 trillion), France (\$2.6 trillion), Britain (\$2.3 trillion), and Italy (\$2.1 trillion).⁵⁴ The Indian and Russian economies are approximately the size of Canada's \$1.6-trillion economy.⁵⁵ By 2030, China will have the largest economy in aggregate, having passed the United States sometime after 2025. The Indian and Brazilian economies will have surpassed the individual national economies of Western Europe, and Russia will be at approximately the same aggregate size.⁵⁶ The European Union, Japan, and the United States will remain populous and wealthy in per capita terms, but their positions will no longer be unrivalled. However, the security consequences of this relative economic erosion can easily be overstated. India and Brazil are supporters of the current global order, China has benefitted immensely from the current international system, and Russia will, in the best of circumstances, only reach parity with Germany around 2030, but with a similarly geriatric and declining population.

The Coalition of the Status Quo and its Challengers

At the same time, the world military situation at first glance looks to be overwhelmingly in favor of the United States and its allies (table 2). This group of supporters of the existing international political and economic system could accurately be termed the "Coalition of the Status Quo." The United States alone accounts for over 40 percent of world military expenditure. Our NATO allies have over one-third of the remaining portion—more than five times that of Russia. Our major Asian and Pacific allies have over 14 percent of the non-American military expenditure in the world—more than China. Our allies in the Persian Gulf region spend over 10 times what Iran spends on its military. In all of these regions, these expenditure advantages are matched by a qualitative advantage in advanced equipment and highly trained, professional personnel who regularly conduct exercises with the United States and frequently with each other. Taken together, this worldwide network of alliances and bilateral military relationships is responsible for over 75 percent of the military spending on the planet and covers an arc from Europe through the Middle East and the Indian Ocean and encompasses the dynamic economies of southern and east Asia. This is the hard core of the Coalition of the Status Quo.

Table 2. World military spending, 2010

Country	Military spending (\$B)	% world total	% non-US total
United States	698.3	43.3	----
Rest of NATO	317.4	19.7	34.8
East Asian/Oceania allies:	130.0	8.1	14.3
Japan	(54.5)	(3.4)	6.0
South Korea	(27.6)	(1.7)	3.0
Australia	(24.0)	(1.5)	2.7
Taiwan	(9.1)	(0.6)	1.1
Singapore	(8.4)	(0.5)	0.9
Thailand	(4.8)	(0.3)	0.5
Philippines	(1.6)	(0.1)	0.2
China	119.4*	7.4	13.1
Gulf allies:	73.2	4.5	8.0
Saudi Arabia	(45.2)	(2.8)	5.0
UAE	(16.1)	(1.0)	1.8
Kuwait	(4.6)	(0.3)	0.5
Oman	(4.2)	(0.3)	0.5
Qatar	(2.4) **	(0.1)	0.2
Bahrain	(0.7)	(< 0.1)	0.1
Russia	58.7	3.6	6.4
India	41.3	2.6	4.6
Israel	14.0	0.9	1.6
Iran	7.0 **	0.4	0.8
Others:	152.1	9.4	16.7
Brazil	33.5	2.1	3.7
Egypt	4.3	0.3	0.5
South Africa	4.5	0.3	0.5
Total	1,611.4	99.9	100.3

* The DoD estimates this figure at \$81.2 billion for 2010 and \$91.5 billion for 2011 (Office of the Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China* [Washington: GPO, 2011], 41).

** 2008

Dollar figures are 2010 current dollars. Percentages do not always sum to 100.0 percent due to rounding. (SIPRI *Military Expenditure Database 2011*, <http://milexdata.sipri.org>)

Comparing the extent of US military power and that of its allies versus possible rivals and the implications of this relative balance of military might for the future of American security spending, former secretary of defense Robert Gates argued that

[the department's] approach to requirements must change. Before making claims of requirements not being met or alleged "gaps"—in ships, tactical fighters, personnel, or anything else—we need to evaluate the criteria upon which require-

ments are based and the wider real-world context. For example, should we really be up in arms over a temporary projected shortfall of about 100 Navy and Marine strike fighters relative to the number of carrier wings, when America's military possesses more than 3,200 tactical combat aircraft of all kinds? Does the number of warships we have and are building really put America at risk when the U.S. battle fleet is larger than the next 13 navies combined, 11 of which belong to allies and partners? Is it a dire threat that by 2020 the United States will have only 20 times more advanced stealth fighters than China?⁵⁷

Many states that are not formally linked into the core of the US security network are status quo powers or can readily be encouraged to support a stable economic and security environment. Brazil, India, and South Africa have all experienced rapid economic growth, even as the economies of the developed world are suffering stagnation in the wake of the economic crisis. Each of these major countries has prospered within the existing economic system and serves as a source of stability within its own region. They are, if anything, at least passive supporters of the Coalition of the Status Quo, providing regional anchors of economic stability.

Of course, money spent on security is an imprecise measure of security threat. North Korea's relatively minor \$10-billion budget outlay,⁵⁸ backed by an army of conscripts and a handful of nuclear devices, still threatens to wreak havoc on the prosperous areas of East Asia. The September 11 attacks were carried out on a budget of less than \$500,000.⁵⁹ Regrettably, creating insecurity is a lot less expensive than providing security. However, it is not clear that massive additional American security expenditures will provide any additional deterrence to North Korean or Iranian actions. Indeed, the reverse might be true—current intelligence assessments provided to Congress indicate that both Iranian and North Korean nuclear programs are motivated by their military *weakness* compared to the United States and its regional allies as well as their own isolation and lack of international prestige.⁶⁰ In other words, they seek to *deter us* with their nuclear programs. This is not to say we should be sanguine about these programs, but it does entail recognition that additional military expenditures will not resolve some of the most important strategic threats facing the United States and its allies.

Despite fears to the contrary, the waning of American power relative to China does not mean that China is positioned to emerge as a new hegemon, even in East Asia. Some observers are concerned that China has already reached a point of hegemony or near hegemony in the world economy.⁶¹ There are corresponding concerns about China's military power.⁶² How-

ever, this seriously overestimates Beijing's strengths and fails to appreciate existing and enduring American (and allied) advantages economically, geographically, and militarily.⁶³ The choke points of world commerce are the Strait of Gibraltar, the Bosphorus, the Suez Canal, the Strait of Malacca, the Strait of Hormuz, the Bab el-Mandeb, the North Sea, and the Panama Canal, all of which are dominated by the United States and its allies. Of these, the Straits of Hormuz and Malacca are critical for the supply of oil and raw materials to East Asia.⁶⁴ The extent of its military bases, alliances, and global military reach give the United States a stranglehold on these choke points. While the United States might have to accept that its traditional hegemony over global commons might not be as expansive as it once was, the extent of American military domination of air, sea, and space is still extraordinary.⁶⁵ Even in the few areas where it might be denied access, American military power will retain the ability to itself deny any potential adversary access to international naval and air space. Rather than a direct military confrontation with China, for instance, a policy of a distant blockade would be extremely effective in using a combination of American and allied military power to exploit China's relative geographic and economic vulnerability to deter or, if necessary, coerce China should the United States and China blunder into a political dispute in East Asian waters.⁶⁶

Avoiding Geopolitical Triage

In 1956, Britain and France were still recovering from the economic aftereffects of the Second World War and attempting to hold onto the remnants of their colonial empires when Pres. Gamal Abdel Nasser of Egypt, the leading Arab nationalist of the era, nationalized the Suez Canal from its British and French stockholders and began obstructing Israeli shipping. In covert agreement with Britain and France, Israel attacked Egypt. Britain and France used the pretext of Israeli-Egyptian hostilities, which they themselves had conspired to precipitate, to deliver an ultimatum to Egypt and Israel to cease hostilities and followed that up with an invasion of the Suez Canal zone. British and French intervention shocked the Eisenhower administration, which had not been consulted, and the United States brought extensive political and economic pressure to bear on Britain and France, curtailing oil exports and obstructing their access to loans from the United States and multilateral institutions.⁶⁷ The financially

strapped and militarily overextended west Europeans were forced into a humiliating retreat that clearly demonstrated the reality of their post-World War II decline from great-power status.⁶⁸ As British prime minister Anthony Eden noted, the debacle at Suez “has not so much changed our fortunes as revealed realities.”⁶⁹

What routes are there to avoid a geopolitical day of reckoning, a twenty-first-century “Suez moment” for the United States, where its security commitments are dramatically revealed to outstrip its resources and capacity to support them? The United States could, of course, cut the Gordian knot of revenue constraint and find ways of generating the tax revenues to match its domestic and international commitments. With revenue projections around 20 percent of GDP and expenditures at 24 percent, the interest required to fund an annual deficit of that magnitude explains much of the imbalance. Indeed, the primary budget—the base budget minus interest payments—is in balance over the medium term. A second, and not mutually exclusive, option is to further curtail spending. As we have seen, there are likely to be fewer resources available for an interventionist foreign policy and much greater congressional and public sensitivity to the cost of such operations under any circumstances. The combination of these factors will pressure any administration to make the 2010s the post-interventionist decade.

In Asia, the Persian Gulf, and Western Europe—the core areas of American interest—this could, in fact, mark a second coming of the Nixon Doctrine. The Nixon Doctrine, most succinctly articulated in Richard Nixon’s “Silent Majority” speech of November 1969, provided the basis for the most substantial reduction in American military spending since the end of the Second World War. The Nixon Doctrine called for the United States to honor its treaties, provide a nuclear umbrella against nuclear threats to its allies, and allow for the provision of military and economic assistance to allies to defend against aggression, while “[looking] to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense.”⁷⁰

In the aftermath of the Vietnam War and the wake of the Nixon Doctrine, the US security position in East Asia did not collapse. Indeed, Nixon’s political accommodation of the People’s Republic of China in 1972 more than compensated for the “loss of Vietnam.” Still under the American security umbrella, Japan continued to grow by leaps and bounds, and South Korea began its economic ascent. Soviet adventurism in Afghanistan and

concerns about the stability of the Persian Gulf led to the explicit, public identification of the Gulf as a vital US security interest. However, even here, the articulation of the so-called Carter Doctrine followed the framework of the East Asia-centric Nixon Doctrine in providing Saudi Arabia and other Gulf State allies with economic aid and sophisticated American military equipment rather than the stationing of US ground troops in the region. The Nixonian tradition of relying upon allies and proxies was taken substantially farther under the Reagan Doctrine that provided anti-communist resistance movements in Africa, Latin America, and Central Asia with training and material but likewise avoided the commitment of American armed forces. The increase in direct American interventions, including the extensive and expensive post-September 11 use of ground troops in Iraq and Afghanistan that has come with the end of the Cold War, stands in stark contrast to the post-Vietnam era of relative restraint.

Eugene Gholz argues that a return to the Nixon Doctrine would be a particularly suitable structure for relations with America's twenty-first-century East Asian allies.⁷¹ Many of these allies—Japan and South Korea, as well as Taiwan—are among the richest and most technologically advanced countries in the world. The Philippines and Thailand, too, have dynamic economies and have weathered the international financial crisis and are recovering swiftly. Faced with the twin pressures of internal fiscal constraints and a relative erosion of our international economic position, an international strategy of security retrenchment, along with an intensification of diplomatic and economic engagement, is essential to maintaining the long-term interests of the United States. At the same time, the United States must be careful not to backslide into a position of simply “buck-passing” to its regional allies.⁷²

This is a narrow path to navigate. Allies need to be concerned enough about US commitment that they invest in their own defensive capabilities but not so reassured that they either underinvest in security or, worse, engage in recklessly confrontational behavior, as the Georgian regime of Mikheil Saakashvili did with Russia in the summer of 2008. This can be done effectively if the extent of American guarantees and capabilities are clearly communicated. Some have argued that American military protection and expenditure is creating a culture of security dependence among our allies.⁷³ If these allies know the United States will always bail them out of their security dilemmas, they will have less incentive to invest in their own defense. While attention is often appropriately focused on the

negative incentives of a “culture of dependence” on the dependent, there are also adverse consequences for the provider, especially in terms of its relations with the dependent—the provider can become overbearing, demanding, and demeaning. A more circumscribed US security policy would reduce concerns about American dominance and give regional allies more control over their own security. In this regard, the movement in Korea toward a wartime Joint Forces Command under South Korean leadership, scheduled to take effect in 2015, is an example that could be replicated elsewhere, such as in the Mediterranean Sea, where responsibility and resources could be shifted to allied navies.

Elsewhere in the world, both the triumphs and tribulations of recent American experiences in Afghanistan, Iraq, and Libya can provide a guide to a successful manifestation of these ideas to future security situations. What is apparent from these three conflicts is that US military force was most efficiently used in circumstances where there was a local, indigenous ground force that could be supported by US high-technology air and naval assets. The success of the Northern Alliance in 2001 relied heavily on US air support but a minimal commitment of ground forces.⁷⁴ The “ragtag” Libyan insurrectionists, backed by precision-guided munitions of NATO and a de facto blockade of Libya, were able to first defend themselves and then mount successful offensives against the beleaguered Qaddafi regime. In Iraq, the most quiescent region was Iraqi Kurdistan, where external aid supported the Kurdish Regional Government (KRG). Kurdish political parties, economic development, and militias (*peshmerga*) provided effective governance over the region.⁷⁵ Finally, while the “surge” is often credited with turning the tide in the Iraqi counterinsurgency, it was, in fact, the Anbar Awakening and the co-optation of local tribesmen in Anbar province that stabilized the province and ensured success against al-Qaeda in Iraq.⁷⁶

The United States’ comparative security advantages are not in learning local languages and customs and in the deployment of tens or even hundreds of thousands of counterinsurgency forces. Its successes in these areas have been expensive, painful, and hard fought. But they do not come naturally or play to US strengths. While the United States can retain capacities in these areas and generate greater capacities if short-term needs arise, its long-term advantages are in mobile, capital-intensive, high-technology weapons systems that can be deployed on relatively short notice, as well as the sophisticated use of information technology for intelligence, surveillance, and cyber systems. Recognition of these require-

ments can be seen in President Obama's "Pivot to the Pacific" in his recent strategic guidance for the Department of Defense that sees American interests "rebalance towards the Asia-Pacific region."⁷⁷ With the ground wars in Iraq and Afghanistan receding, the Army and Marines will experience the most substantial downsizing.⁷⁸


Rather than explicit commitments to rigid alliances, US security interests will likely be best promoted through partnerships with other countries—joint exercises, training operations, and exchanges. This has the advantage of encouraging interoperability, trust building, experience in different environments, and capacity development.⁷⁹ The new US Marine and Air Force presence outside of Darwin, Australia, can be seen as a means of developing just these capacities. Outside any immediate zones of potential conflict in south and east Asia, this new Pacific presence will be centered around a combined arms training base on Bradshaw Range encompassing an area the size of the state of Connecticut.⁸⁰ At the same time, it spares the United States the expense of maintaining large-standing overseas forces and relieves US policymakers of the burdens and consequences of explicit security guarantees that risk creating defense protectorates.⁸¹

American diplomatic activities would need to be upgraded to encourage US allies to cooperate more closely with one another and seek multilateral, regional, and international solutions to security issues. The United States is fundamentally a status quo power, and any strategy it pursues will need to be one that either co-opts or accommodates potential challengers to the status quo. Fortunately, the main potential challenger, China, has been successful precisely within this American-created system.⁸² The various paths to resolving difficult security problems—such as the North Korean and Iranian nuclear programs, as well as many important economic issues—run, at least in part, through Beijing.⁸³

Compared to the Soviet Union—which controlled a large nation-state with hundreds of millions of inhabitants and a network of state allies with millions of additional citizens, an advanced industrial base, a universalistic ideology, a highly advanced conventional military on the borders of our closest allies in Europe, the Middle East, and East Asia, and to top it off, possessed tens of thousands of nuclear weapons with reliable delivery vehicles that could destroy our entire way of life—the threats we face now are relatively modest. Al-Qaeda and similar terrorist organizations do not even control a state; Iran is a regional threat balanced by powerfully armed neighbors, while North Korea's greatest threat is probably that its regime

will collapse. That is not to say these threats should be ignored, but they should be kept in perspective as the United States enters an era where there will be strong fiscal pressures for an international strategy that is less directly engaged.

Likewise, it is worth stressing that moving to a policy of fiscal and military retrenchment at home coupled with a return of a New Nixon Doctrine abroad is a far cry from isolationism and disengagement. It is important to emphasize that a decrease in resources and commitments does not mean no commitments, nor does it mean nonengagement, and it certainly does not mean the United States will no longer be the pre-eminent power in the world. It does mean a recognition that the period Charles Krauthammer termed the “unipolar moment” is over.⁸⁴ Indeed, a New Nixon Doctrine would necessitate a high degree of diplomatic engagement to encourage and bolster the positions of our regional allies and partners. It would also mean a greater expenditure of diplomatic effort to encourage other countries to be more involved in supporting multilateral actions. This would have the added advantages of enhanced international legitimacy and a removal of any potential stigma that direct US military intervention might create.

The United States retains immense advantages over every other potential peer competitor and any nonstate threats to international stability. However, while we can remain the most influential country in the world, we cannot remain the dominant country in the international system. Furthermore, attempts to preserve that position can be counterproductive. This would be especially true for any foreign engagement that involved a sizable number of US ground forces, as those interventions are financially the most expensive to sustain and the most difficult to terminate. In addition to recognizing the limitations of the likely future fiscal and security environment, bringing back the Nixon Doctrine plays to and preserves the existing and enduring strengths of the United States. These include its centrality to the international system of trade and monetary relations, its existing network of long-term alliances, and its technological and military strength. These are immense advantages, and the United States should play to them. Many of the consequences of the United States’ adjustment to its looming budgetary reality are uncertain. What is certain though is that fiscal considerations will significantly fetter any long-term US security strategy. 

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