

LESSON 4

ECONOMICS AND POLICY

“There is an irony in the fact that military leaders and economists approach each other’s disciplines with some degree of suspicion if not incomprehension. Each holds expertise in one of two subject areas that lie at the core of state sovereignty: (1) command over the legitimate (legal) use of force, and (2) the ability to coin money and determine its value.”

—Janeen Klingler, Ph.D.
USMC Command & Staff College

Lesson Introduction

This lesson is designed to address the important relationship between domestic and international economic factors and national policymaking. The basic assumption is that in today’s global environment, there are important trade and economic issues that are an integral part of national security policy. An understanding of these issues is fundamental to the future military commander and senior level staff officer. In fact, the linkage between military power, national resources, and global economics is the least understood component of national power.

As you examine the educational objectives and the required readings, there are two distinct but related questions that need to be considered. Both are part of an understanding of how the economic elements of national power impact on national security. The first question involves the allocation of defense spending expressed as the classic trade-off between guns and butter. And the question is: **Can you have a vibrant, dynamic and growing economy if you spend excessively on defense?** Whether a country can shoulder a large defense burden depends upon whether that country is at war or at peace. In a popular war, it is not too difficult to get popular consent for spending 50% of GNP for the war effort. The key issue is whether excessive spending on defense is so corrosive on economic health that it eventually undermines a national economy. The second question **concerns the degree of openness in the international economy and whether free/open trade is good for a national economy and national security.** Is economic interdependence good or bad for a national economy, and does competition become debilitating to a national economy? If the entire point of national security policy is to minimize the harm caused by foreigners, that is, to minimize your vulnerability to others, then free trade, by definition is a direct contradiction of national security because open trade leaves you vulnerable to the actions of foreigners.

Student Requirements by Educational Objective

Requirement 1

Objective 1. Explain the purpose and process of the Federal Budget. [JPME Area 1(a)]

Objective 2. Distinguish the link between domestic and military spending [JPME Areas 1(a)(e), 4(a)]

Read:

- *Resource Allocation: The Formal Process*, 8th Edition, 1 July 2002, ed. Captain Raymond E. Sullivan, Jr., USN, U.S. Naval War College, pp. 79 to 83 (stop at “Process”), pp. 86 (start at “The Federal Budget Process”) to 94 (stop at “People”), and pp. 99 (start at “Products”) to 101 (16 pages)

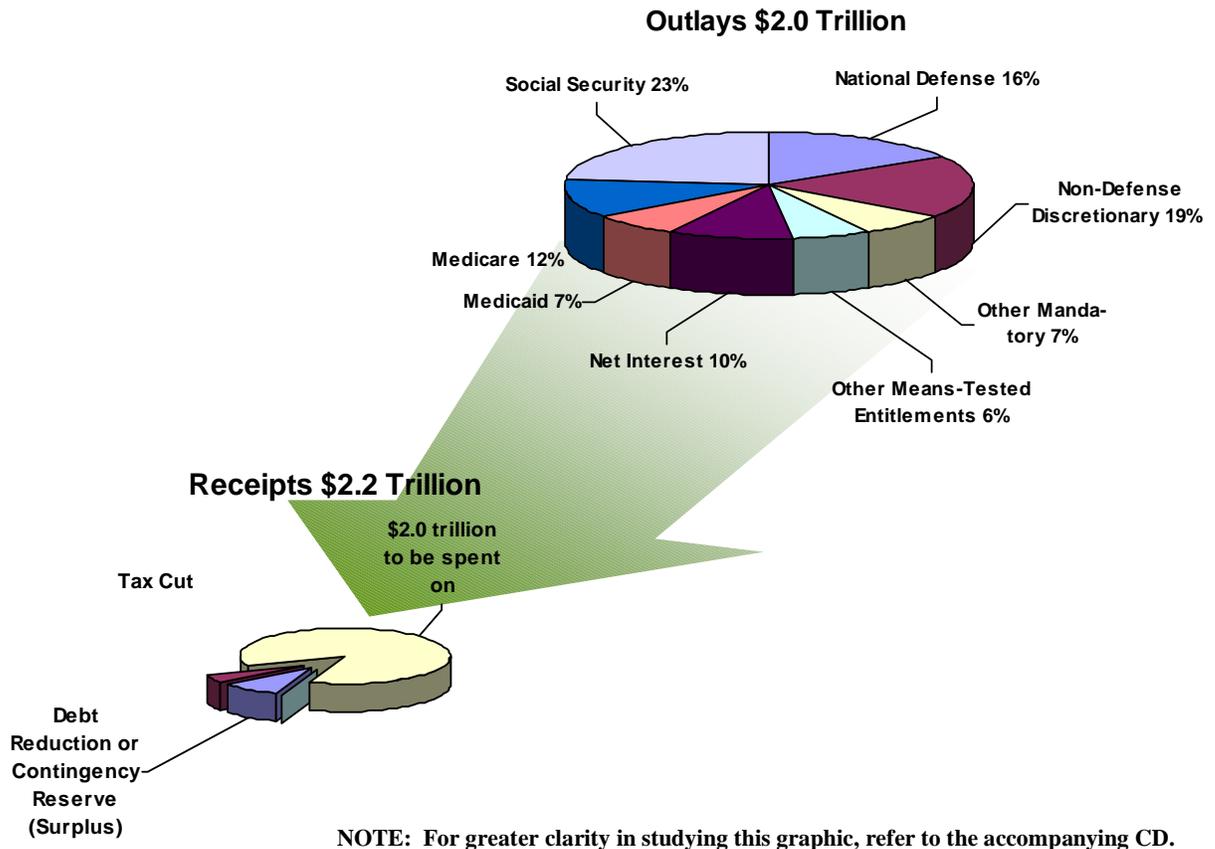
The federal budget is an extremely important factor in determining the amount of national resources that will be committed to national security and strategic considerations. For example, while domestic spending can be considered discretionary or mandatory spending, all military spending is considered discretionary spending. Approximately 65 percent of the Federal Budget (Social Security, Medicare, Medicaid, etc.) is considered mandatory spending. In other words, mandatory spending will remain fixed within the budget, but if spending is increased in one category of discretionary spending (for example, in education), it must be decreased elsewhere (for example, in military spending) to stay within the total dollars permitted.

As career military officers immersed in remaining fully prepared for a potential conflict in any of a number of theaters, any under-funding within the defense budget will have serious consequences in the areas of **readiness, force structure, modernization, and sustainability**. Today, as a result of the Goldwater-Nichols Act, the Joint Requirements Oversight Council (JROC), and other critical programs and committees, there is a concerted and coordinated effort at the highest levels to ensure that funding is available to support those requirements necessary for any U.S. war effort.

The debate regarding defense spending versus domestic spending is an ongoing diatribe that will become more heated as deployments increase and as new and more equipment is fielded, all which are in direct conflict with equally important domestic programs. Some argue that defense spending is too high because planners use unrealistic assumptions in the number of major theater wars that the U.S. must be prepared to fight and the timelines that surround these strategies. Others argue that Congress views defense spending as a federal jobs program, while yet another group argues that critical domestic programs are suffering as defense spending increases. Clearly, the nation’s leadership has tremendous challenges when deciding on spending priorities. Some critics claim that the U.S. has reached a position of financial over-extension in the world today. You may certainly draw your own conclusion as to whether the military has reached that point. In order to

help you assess this problem, the following chart, which portrays receipts and outlays, is provided as an example and depicts the spending priorities, among which the Defense Department is a major participant.

Means-tested entitlements are those for which eligibility is based on income. The Medicaid program is also a means-tested entitlement.



Requirement 2

Objective 3. Discuss the ways in which the domestic and global economies and economic policies might influence national decisionmaking and national security strategy. [JPME Area 4(a)(b)]

Objective 4. Describe the nature of the relationship between the national economy and military capability. [JPME Area 1(a)(e), 3(e)]

Read:

- Alan P. Larson, "Economic Priorities of the National Security Strategy," *U.S. Foreign Policy Agenda*, December 2002, pp. 19 to 22 (4 pages)

- Denoon, David P.H., Chapter 10, “Economics and National Security: The Dangers of Overcommitment,” *The Global Century: Globalization and National Security*, pp. 241 to 255 (14 pages)

The Larson article is an excellent example of how the economic element of national power is viewed by a Presidential administration. The three economic priorities of the National Security Strategy (NSS), economic security, open market agenda for global prosperity, and expanding the circle of development, are all linked to such priorities as the war on terrorism, U.S. homeland security, efforts to bolster the financial stability of allies, and efforts to reduce poverty, which can be the harbinger for instability, hopelessness, and despair of people in developing countries. These economic priorities drive foreign policy, which, in turn, affects the diplomatic element of national power. It makes sense, then, that both the economic and diplomatic elements of national power will strongly affect the military element of national power.

Furthermore, Denoon’s article takes this discussion to the next level. He integrates the concept of globalization of economies and makes several very astute points about how an economy, which is globalizing faster than ever before, affects national security strategy. One must realize that the phenomenon of the globalized economy is nothing new. The pace at which economies are globalizing is the central issue. Denoon defines globalization as the creation of truly worldwide markets on the input side for labor, capital, and technology and on the output side for final products and services.

Globalization affects nations differently, depending upon their economic maturity and their level of integration within the global economy. Denoon states that there are two aspects of globalization today that make it different from past periods of open trade: the pervasiveness of outside political and cultural influences makes it extremely difficult for non-Western cultures to preserve their autonomy, and the speed with which orders for trade, capital, and technology are carried out makes it much harder for governments to respond when a crisis develops. Since open capital markets often put unsustainable stress on the banking, insurance, and regulatory sectors of developing countries, it is not surprising that countries like China, India, and Malaysia have chosen various forms of capital controls and resistance to aspects of economic globalization.

Focusing at an even closer range on this issue, Denoon claims that only during the 1990s, after the end of the Cold War, did economists start linking structural changes in the global economy to more fundamental questions about strategy. He cites two examples: The first, if production and assembly of “American products” were going to be done on a truly global basis, where should the lines be drawn between vital and merely important interests? Secondly, if the defense industry was going to be downsized, to what extent could the Department of Defense rely on foreign suppliers for vital parts and cooperation during a war?

In summary, Denoon posits the following seven propositions that form the basis for much of his perspective on how globalized economies affect national security:

1. In the next decade, fundamental security challenges (those that threaten large parts of the American population) are likely to come only from the large transition states that have the economic strength and technical prowess to inflict widespread physical damage or massive economic disorder.
2. Smaller transition and traditional states, as well as assorted terrorist groups, might be able to damage selected areas of the United States but are unlikely to be able to threaten the basic integrity of American society.
3. Overall globalization is an accelerating trend with such a large number of complex interactions that it is impossible to adequately model or accurately predict the full range of its social, political, and military implications.
4. The economic aspects of globalization, however, have been under way for a sufficiently long time that the United States can probably make acceptable estimates of the likely direction and impact that world economic integration is having and ways in which the character of the world economy will evolve in the next decade.
5. Current levels of U.S. defense spending do not significantly detract from the long-term growth potential of the economy; given the plausible challenges of the next decade, the United States is fully capable of defending itself against direct threats to its population and national integrity.
6. Nevertheless, because the United States is so dominant economically and militarily, its allies and many other nations expect it to provide stability and security protection in large parts of the globe where vital national interests are not involved. Much of the future debate about linkage between economics and security will thus be focused on the extent to which American taxpayers should provide systems maintenance for the world.
7. If the current trend of increasing U.S. involvement in police actions and maintenance of order in the Third World continues, military readiness will be affected; also, it will be harder to maintain military superiority and research and development levels necessary for military dominance. Hence, it will be essential to develop criteria for deciding when to participate in police actions and limiting the tendency of allies and independent states to free-ride on the provision of global security protection.

Lesson Summary

This lesson has been provided as a primer on the economic issues that you, as a Marine officer, may need to understand in order to be a more effective staff officer or commander. Knowledge of the federal budget process is absolutely imperative when competing for financial resources within the Marine Corps, DoD, or the federal government as a whole. The Planning, Programming, and Budgeting, System (PPBS) is all about developing and identifying requirements and attaining funding for the satisfaction of those requirements. From the more strategic view, an understanding of the federal budget and its purpose helps you to be able to link what is happening on the domestic scene with what is happening in the international environment. The federal budget truly establishes national priorities, with regard to both domestic policy and foreign policy. After all, policy without resources never will have the necessary teeth to take hold.

The second part of this lesson takes our domestic economic situation to the next level by placing it into the “globalized” economic setting. This globalized economy certainly has advantages for our domestic economic well-being, but it also introduces several potential national security challenges. As our economy becomes more interdependent and intertwined with the globalized economy, we may find our national treasury at greater risk, or we may find increased competition between domestic economic health and our national security interests abroad. This could even affect homeland security issues and probably already has, as evidenced by the porous nature of our borders. Without this understanding, you would have a difficult time understanding why our national leaders do the things they do or why the U.S. armed forces are constrained in the way they are. This lesson truly demonstrates how one element of national power affects other elements of national power, both positively and negatively, and it expands on themes developed in the Theory and Nature of War course by examining the economic basis of military power.

JPME Summary

AREA 1					AREA 2				AREA 3					AREA 4					AREA 5			
A	B	C	D	E	A	B	C	D	A	B	C	D	E	A	B	C	D	E	A	B	C	D
X				X									X	X	X							