Strategy Research Project

Economic Competitiveness: A Strategy to Preserve U.S. Power and Influence

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Abstract

This paper states that emerging nations are not an existential threat to the U.S. Instead, the primary threat to U.S. power and influence is dual natured and revolves around the nation's massive debt and inability to adapt to the changing world. To address these threats and maintain its position as a global leader, the U.S. must adopt a strategy focused on becoming more economically competitive via a smart power approach designed to contain emerging powers economically by dominating global market shares. To ensure effectiveness, the executive branch must develop, sponsor and maintain this strategy in the same manner that the U.S. government managed the containment of the USSR under NSC-68.

Economic Competitiveness: A Strategy to Preserve U.S. Power and Influence

Here be Dragons!

—Robinson Meyer[1]

Cartographers of old inscribed the above and drew pictures of monstrous beasts along the margins of their antique maps. They did so to describe the unknowns that lurked in the corners of the world which remained unexplored. The United States faces similar unknowns today but in a different sense. While the physical landscape of the world is well known, the future of how the U.S. can maintain its influence over this landscape is not. This has led some to mislabel uncertainty in the same manner as the ancient mapmakers did – as a threat.

The original purpose of this paper was to provide thoughts on how the U.S. could answer the rise of China and the threat it presents to U.S. power and global influence. Simply put, the question was, "How does the U.S. contain China?" The answer to this question is even simpler – it cannot. It cannot in the same vein in which the West contained the U.S.S.R. during the Cold War. More importantly, relying on the same formula which produced success is no longer applicable because the Chinese and American economies are inseparably connected. Any attempt to the old containment formula to one, would invariably damage the other.[2]

This realization reversed the initial thoughts of the paper. It forced a new line of thinking which shifted the focus away from China and towards the U.S. While the economy is truly critical to U.S. power, it is subject to manipulation through policy and it will suffer if the policy is imbalanced. Ultimately, this line of thought helped develop the idea that the true existential threat to the U.S. is its unwillingness to adapt to modern realities. This is ironic as the U.S. and its allies built the modern world and the international systems that govern it. They did so to offer an alternative to Communism and they subsequently enjoyed a dramatic increase in power when the Soviet Union fell. However, since the fall, it is arguable that the U.S. has not adapted to the world it created. Some believe that that the U.S. failed – and continues to fail – to adjust the way it operates across the globe. Consequently, this failure has led to a continued diminishment of its power and influence.

Some academics made the same argument about Great Britain during the Suez Crisis in 1956.[3] Still hobbled by war debt and slowly losing its overseas possessions and reputation as an empire, Britain gambled in Egypt. Unfortunately, it did not pay off and England humiliatingly withdrew from the region. It was among the last gasps of the empire and it occurred due to U.S. diplomatic and economic pressure. Ironically, this fall from empire status reinforced the acknowledgment of the U.S. as a world power. Dr. Mark Duckenfield from the U.S. Army War College wrote about the possibility of the U.S. experiencing a similar “Suez Moment” in the future.[4] He asserts that, if not careful, the U.S. could find itself in the same position as England in the 1950’s. That said, Duckenfield’s point is poignant in that the U.S. could follow the same path as the U.K. unknowingly and to the point where its ability to lead the international system could be called into question.

This paper provides thoughts on how the U.S. can avoid its own “Suez Moment”. First, it argues that the nation’s biggest threat is not China. Instead, the true threat to U.S. global power and influence is its declining economy and enormous debt. Just as important as the debt problem, is the U.S. reticence to adapt to the modern world which has manifested itself in a resistance to change. Ultimately, these problems have damaged the nation's ability to lead and simultaneously created a vacuum for the competition, namely an emerging China, to fill. Therefore, the solution to this dilemma is not containment of China. Instead the solution lies with the U.S. ability to adapt, interact and economically compete with world as it is, not as it was. Finally, the paper concludes with a set of recommendations designed to facilitate this change and promote U.S. economic competitiveness around the globe.

To say that China is not a problem for the U.S. is an understatement. China is a problem – a problem within the Pacific Rim and to U.S. interests in the region. While important, neither constitutes an existential threat. More accurately, China and its partner BRICS (Brazil, Russia, India and South Africa) nations are the competition. Together, the BRICS experienced a meteoric rise economically, militarily and influentially across the globe. Of these categories, their economies are of great concern – especially the Chinese. This concern is due to the exceedingly rapid rate of its growth and influence around the world. Patrick Stewart of the Council on Foreign Relations stated that the Chines experienced the "…fastest reallocation of economic might in history as it [China]…accounted for only 11% of U.S. GDP in 2000, …[and] has now overtaken U.S. in purchasing parity."[5]

However, while this growth represents economic power, it also indicates an economy that is growing too fast and therefore subject to slowdown. This slowdown began in 2012, as indicated by a massive reduction in Chinese demand for foreign commodities.[6] Analysts predict that this slowdown in growth will continue to contract to a rate below last year's 6.9% - its lowest in 25 years.[7] In addition to the deceleration in GDP, the Chinese also have a debt problem.[8] According to current estimates, the

Chinese debt to GDP ratio is over 250%.[9] When combined with the slowdown in growth, this debt indicates that China has overleveraged itself and eventually will face a similar, if not more serious, fiscal dilemma than the U.S.

In addition to financial issues, China has other internal problems which demand attention. Despite being a Communist country, China exercises a form of mercantilism in regards to its economic policy. The State and its military apparatus run the government and the country's equivalent of corporations, which leaves little divide between business and governance. China's centrally managed economy is authoritarian in nature and focused on growth and business. It is similar to Britain's colonial East India Company, but with a Communist ideological base. While this system has produced unprecedented economic growth, it has also created an unexpected and very nascent middle class. If this middle class continues to grow, some experts predict that it will want a greater voice in how the government manages its economic policies.[10] Another problem associated with the rising middle class is that it could produce intra-class friction by creating the 'have and have not' syndrome. In either case, the government will have to address these and other problems associated with the hybrid free market-communist business model it has fostered. .

Admittedly, the rise of the middle class does not constitute a serious threat to China or its government. However, if combined with other internal problems, it could have profound repercussions. Currently, China has some serious internal problems: effects of the one child policy, security issues in the western provinces, pollution and wage increase demands from millions of its workers. If not careful, these issues could significantly disrupt the country's ability to grow economically and degrade the governmental legitimacy.

The emergence of China is indicative of the fact that the U.S. no longer has a monopoly on global economic power or the international system that regulates it. China represents the new stake holders that want, and have the means, to compete within the global order. They do not see the world from the same perspective as the U.S. or its allies and partners. If given the opportunity, China and other emerging nations, will change or compete with the current international system that has benefitted the U.S. for decades. Overall, China is acting in a similar manner as the U.S. did in the 1950s. It is ignoring the status quo and building global systems that are beneficial to it. More importantly, it is doing so during a period of U.S. economic decline.

Arguably the economy is the source of the U.S. power and influence. It provides the nation the means and resources by which the government is able to meet its Constitutional requirements. When the economy is healthy, the nation is healthy and it can expend its resources to fulfill its domestic and overseas agenda. When the economy is crippled, both suffer. Currently, the economy is slowly recovering from the massive trauma of the 2007-2008 recession. While this recovery is good for business at home and abroad, there remains the underlying problem of the $18.2 trillion national debt partially caused by the recession.[11] When compared to the 2015 GDP of $17.2 trillion, the debt to total economic product percentage is 102% - a sum greater than the total of all money made in the U.S. in one year. Further complicating the debt problem is how the government pays its debt. The government pays debts in two ways. It either uses money from tax revenues or it sells bonds or bills and assumes more debt. In

2015, U.S. federal tax revenues totaled $3.2 trillion or about 1/6 of the nation's debt. However, these revenues also pay for the government's annual fiscal budget. Based on recent history and the decline in federal revenue due to the recession, the U.S. has been unable to pay for its budget. This created a series of continuous deficits which led to more amassed debt.[12] As one can see, this problem can become rapidly uncontrollable – especially during an economic downturn which includes bailouts as part of its recovery plan.

In 2004, the U.S. debt was $6.5 trillion. Due to the recession, recovery measures, and unchecked spending, it has since tripled. The primary reason behind this was the severity of the 2007-2008 economic downturn; since re-labeled as the worst recession since World War II.[13] Even more unsettling, the massive downturn was unexpected as it did not follow the typical Bull and Bear indicators of past downturns. As noted economist Greg Ip states the country experienced a "Minsky Moment."[14] The Minsky Moment is a sudden and violent economic collapse which occurs during a period of prosperity. Of note, the crash of 2007-2008 was particularly devastating because financial experts believed that they had learned how to tame the business cycle. This belief proved untrue as economists failed to account for the vast amount of debt acquired across the private and public sectors. This debt resulted in foreclosures and failures across both sectors and left the federal government with a choice – bailout or allow private sector to fail. The government chose to the bailout option and adopted recovery polices focused on expensive stimulus options and bailouts of major corporations. While successful in jumpstarting the economy, these recovery measures combined with unchecked governmental spending dramatically increased the debt.[15] To further exacerbate the problem, the government must repay its debt with interest. Therefore, regardless of whether or not the government spends, its debt will continue to grow until it is paid down. To pay the debt, the government must increase revenue or make budget cuts to generate funds for payment. Neither of these options is easy as indicated by last year's $600+ billion federal deficit.

The severity of the national debt problem is not a new or emerging crisis. It has been a constant fixture within the nation's political debate. Many leaders have spoken out about its severity too include former Chairmen of the Joint Chiefs of Staff Admiral Mike Mullen who publicly voiced his opinion that it was, "…the biggest threat to our national security…"[16] In 2011, Vice Presidential candidate and future Speaker of the House, Paul Ryan, echoed this sentiment when he told National Public Radio, "When you take a look at the problems our country is facing, debt is No. 1. The math is downright scary and the credit markets aren't going to keep on giving us cheap rates."[17] Despite this attention, U.S. leadership has yet to acknowledge it as an existential threat.

Excessive debt affects the economy in three primary ways. First, with the requirement to pay the debt, there are less resources for other initiatives – either domestic or overseas. This reduces the nation's ability to apply leverage across the Diplomatic, Informational and Economic elements of the DIME. This limits U.S. flexibility and disrupts the nation's ability to compete. Second, debt can destabilize an economy by reducing its legitimacy; too much debt reduces lenders and investors confidence levels. This occurred in August 2011, when Standard and Poor's reduced the U.S. credit rating from AAA to AA+.[18] The effect of this reduction was an increase in interest rates for debt repayment, private sector businesses, and consumers. Another concern is how the debt could affect the economy if it endured another recession. Despite the fact that most economists believe the U.S. is on the road to a full economic recovery, what would happen if China's downturn turned into a massive slide. Based on the inter-connectedness of the economies, the U.S. could find itself right back into a massive recession. This time, however, there wouldn't be a cushion from which to bounce; the nation would have to add debt on top of existing debt to provide stimulus or bailouts. In some cases, bailouts might not be an option which could further complicate recovery efforts. This is the nature of the globally interconnected economy and an example of it occurred on 4 January 2016, when the Dow Jones dropped 467 points due to a downward spike in the Chinese market.[19]

The interconnected nature of the American – Chinese economies is also the reason why a coercive strategy to contain China will fail. If the U.S. were to follow this type of strategy, any damaged incurred by China will be felt within the U.S. system. Simply put, due to the magnitude of U.S. - China business dealings, it would be exceedingly difficult to figure out what and where to contain without understanding how said containment would hurt your side first. If the U.S. attempts to disrupt this symbiotic relationship, it will be the equivalent of cutting off its nose despite its face.

The undoing of the U.S. economy through debt was avoidable. Had economists not been so overconfident in their ability to control the economy, the country could have avoided the recession of 2007-2008. Had the U.S. government regulated loan and banking processes, perhaps the magnitude of the recession would have been smaller. The same goes for consumer credit excesses. Overall, the conditions that led the nation its $18.2 Billion debt were ultimately part of another serious problem that affects the U.S. That problem is the nation's unwillingness to adapt to the modern world.

Besides the massive debt problem, the other critical problem facing the nation is its inability to adapt to the world it helped create. Ironically, this reluctance to change began in the post-Cold War era when U.S. global power and influence was at its zenith and the country was the sole super power in a unipolar world. The rise of U.S. power was in part due to the establishment of systems, thinking and ideas designed to offer an alternative to Communism. In this endeavor, the U.S. was able to bend the world to its desires. With the collapse of the Soviet Union and with the rise of new threats, the U.S. has seemingly lost its ability to adapt. Overall, this resistance to change has hurt the country's ability to address problems with new and innovative solutions. This has stagnated U.S. global influence, power and most importantly – its ability to be economically competitive. There are two primary examples that highlight this resistance: the current state of political affairs in Congress and the inability of the government to reform international systems that are inclusive and globally beneficial.

The primary example of the U.S. inability to change lies within the current state of government – specifically within Congress. One would expect that U.S. politicians would generally unite during times of crisis and when the nation faces a serious threat. However, this is not the case. In some opinions, the Congress' bipolarity is greater than ever before.[20] While maintaining support of party lines has always been an inherent factor in politics, the current level of adherence to the party has created a stalemate within the Congress regardless of which party is in control. The impact of this stalemate has spawned an attitude of non-cooperation and obstructionism on both sides of the aisle and it has led to the rise of emotionally based legislation like the Budget Control Act which ushered in Sequestration.[21] Congress did not devise Sequestration to fix the economy. Instead, Congress designed it to be such a bad option that it would compel both parties to hold meaningful negotiations. Unfortunately, Congressional dysfunction prevented compromise and promoted a failed process. Another, and more appropriate example for this paper, was Congress' failure to support President Obama's plan to reform the International Monetary Fund (IMF).[22] This was a direct reflection of legislative myopia and eventually forced emerging nations and some close U.S. allies to follow the Chinese lead in international system building.

The Obama Administration worked hard to reform the IMF which it saw as badly antiquated international architecture that required updating. The plan was to open up voting membership within the IMF to give China and other emerging countries 'chairs and shares' within the organization. If approved by Congress, it would have locked China into a renewed international system that the U.S. built and benefitted from at Bretton Woods. Indeed, this was exceedingly important to the U.S. long-term economic agenda and a bi-partisan Congress subsequently scuttled it due to fears of emerging Chinese competition and party politics. The impact of this failure to adapt to new realities was wide ranging. First, the IMF's legitimacy was damaged. Instead of being an organization that existed to serve global interests, emerging nations received a clear message – the U.S. and its international system was unwilling to share control of the established global economic infrastructure. Secondly, China responded to this message as any competitor would when locked out. It built its own regional version of the IMF, the Asian Infrastructure Investment Bank (AIIB), which served to directly compete against the IMF and World Bank within the Pacific Rim.[23] With the creation of the AIIB, China sent its own message to the U.S. That message clearly stated that it would forge its own economic systems. China then amplified this message by inviting Europe to be a part of their system. Despite U.S. attempts to get them to refuse, the Britain, France, Italy and Germany became founding members of the AIIB during the summer of 2015.

The emergence of the AIIB, complete with long standing U.S. allies as founding members, was as unnecessary as it was shortsighted. It damaged U.S. prestige and influence around the globe and it served as an example of how detrimental U.S. political acrimony can be to the nation's interests. If Congress had understood the value of opening IMF participation to China and other emerging countries, it could have revitalized an integral part of the global system that has served the nation well for decades. Congressional leadership failed to see past the rhetoric as much as they failed to see the reality of the world. Rather than compromise, decision makers focused on the party line and maintaining the status quo which ultimately led to failure.

After World War II, the U.S. and its allies created the modern international system at Bretton Woods. Economic in nature and predominately established to offer an alternative to Communism, the system created the IMF, the World Bank, and a host of other agreements that would dominate geo-economic politics for decades.[24] These institutions, backed by American leadership, economic might and influence, greatly benefited the U.S. and other Western nations. In simplest terms, the agreements bent the world to American desires out of appeal, convenience or necessity. Regardless, most of the west sided with the U.S. and the system was established.

Ultimately, this new system proved exceedingly beneficial to the U.S., its allies and the world. It provided a modicum of global stability and gave the U.S. greater influence within the global economic system. Additionally, the system served to support the western economies while isolating the Soviet Union and its Eastern Bloc satellites. Arguably, it played a key role in the fall of the Soviet Union and gave rise to a unipolar world dominated by the U.S. in the 1990s. However, this consolidation of power could not and would not last forever. The rise of China and other near peer competitors at the turn of the century changed the environment. Simultaneously, the attacks on 9/11 led the U.S. into the 'War on Terror', a constant focus on the Middle East and an over-aggressive foreign policy. Finally, as if the world had not changed enough, the economy spiraled downward during the 2007-2008 recession. The U.S. was shocked and the level of uncertainty facing the nation grew exponentially.

Regarding the international system, President Obama recognized it was antiquated and in need of reform. This agenda continued in his second term as highlighted in the 2015 *National Security Strategy* goal of making global institutions, "…more effective and representative."[25] To support this objective, the administration attempted to reform the IMF and endured subsequent embarrassment when Congress rejected the proposal. This rejection confirmed to some that the U.S. was interested in maintaining status quo and not in adjusting to current global realities. Today, it seems as if adaptation and evolution are the new normal; both are a part of how nations play the modern game of geo-politics. A failure to understand the requirement to adapt is deleterious to a nations influence as seen in China trumping the U.S. with the establishment of the AIIB. This should serve as a cautionary tale for American leadership. The crux of this tale is that American faith in previous assumptions and systems may be flawed. To think otherwise may jeopardize U.S. efforts in the future.

The U.S. faces an uncertain future. The uncertainties on the margins of its map are not monsters. They represent emerging competitors, uncontrolled debt, and internal political stalemate. The real monsters lie within the nation's inability to recognize the realities of the modern world - to see the world as it is and not how it used to be. If the U.S. continues to ignore the fact that the world has changed and subsequently cannot adapt to the change, it will lose its power and influence over it. Collectively, this constitutes a threat to the nation's ability and capacity to lead. While an alarming notion, the end is not nigh; the U.S. still has time to figure out a way ahead. When American leadership recognizes this potentially bleak future, it must affect change to avoid it. Key to this change is to acknowledge the serious nature of problems like the national debt, how they relate to the nation's ability to compete and finally how to develop measures to address them. Indeed, this will be a difficult and a long-term undertaking that will demand sacrifice from all Americans – to include those that represent both political parties in Congress. These options must center on rebuilding American competitiveness in a world in which the rules of the status quo no longer hold sway.

Recommendations.

So how does the U.S. become more competitive? The remainder of this essay offers some recommendations to answer this question. These ideas are strategic in nature and for brevity's sake only focus on the Economic element of national power. This is not to discount the need for the other elements of power; they are all exceedingly important components of any strategy. Of the most important of these recommendations, is the idea that the U.S. needs a national strategy that can harness the elements of national power to achieve a simple end – sustain U.S. influence and leadership around the world.

In academic, political and military circles there are differing opinions on how the U.S. should address the threats and challenges inherent in today's global environment. Some arguments revolve around a renewed call for isolationism to reduce efforts and fiscal expenditures overseas. Others call for containment to check the competition, namely China, before it grows too powerful. While these 'Ways' are to a degree acceptable, they don't achieve the end of sustaining U.S. influence as they are not focused on the U.S. center of gravity – the economy.

When faced with the threat of Communism in the 1950s, the U.S. developed a strategy of containment.[26] Articulated in NSC-68, the concept of containment helped align ends, ways and means and provided the nation with purpose and motivation until the Soviet Union fell. Faced with the uncertainty of today's environment, it is arguable that the nation needs a similar long-term strategy. However, instead of focusing on a particular threat, this strategy focuses on improving the American ability to compete globally. This fosters the conditions that allow the U.S. to out-compete the competition at the market place. By doing so, the U.S. can contain the competition by denying the competitor parity within the global market. Rather than contain through use of force, the mechanism to achieve containment is for the U.S. to become the better alternative in terms of market share, trade, legitimacy and fairness. This concept is not unique; it is fundamentally based on Joseph Nye's 'Smart Power' concept that advocates the use of coercion, payment, and attraction as options to achieve a goal.[27] For brevity's sake, this paper will mainly focus on the appeal aspects of Smart Power. Applying this approach to a national level strategy that is of the scope and magnitude of NSC-68 is not easy. It is a difficult endeavor will require focus, buy in and persistence.

There are many challenges toward the establishment of a plan such as this. Among these challenges is the acceptance by U.S. stakeholders that a national strategy is a necessity. These stakeholders consist of the public, private and governmental leaders that would have to sacrifice time, effort, and resources to support this type of plan. By doing so, they will be required to maintain balance between internal requirements and external commitments. Furthermore, stakeholders must accept the idea, similar to the containment of the Soviet Union, that this type of strategy will be multi-generational and enduring in nature. It must be flexible enough to adapt to changes in the environment to include being able to withstand the nature of U.S. party politics. Perhaps most importantly, stakeholders must understand that this type of strategy will not produce immediate or tangible results. While difficult, these challenges are not overwhelming if the stakeholders understand the severity of the problem. Unfortunately, the magnitude of the debt is a compelling forcing function to enhance stakeholder understanding. However, acceptance is only the start and will not be decisive enough to solve the problem. Leadership and focus is required and for a governmental undertaking as massive as this, executive branch oversight will be required. Therefore, this paper recommends that the executive branch must emanate and maintain this strategy.

One way to ensure leadership and focus is for the President to direct the National Security Council (NSC) to build the strategy. As the principal advisory committee on policy and national security issues, the NSC has the experience, capacity and inherent leadership within its organization to develop this type of strategy.[28] Additionally, it also serves as the principal coordinating arm for government policy and agencies which execute the policy. The NSC also encompasses several executive Cabinet positions, many of which are directly responsible for the various elements of the DIME. This can create the synergy needed to support the comprehensive and synchronization required to make the strategy effective. Overall, this makes the NSC the best alternative for the development and support of this type of strategy. It also mirrors the way in which the government administered NSC-68 over four decades during the Cold War. While this is a good start, there is one additional recommendation regarding the supervision or leadership of the strategy – once it is developed. This revolves around the need to ensure the plan stays on track and remains focused. A way to maintain this focus is for the President to direct the Vice President to be responsible for the strategy. This provides the President with the appropriate level of leadership and it sends a clear message to all stakeholders regarding the importance of the issue. Once the President decides where and under whom the establishment, implementation and maintenance of the strategy will fall, development can begin.

The first and foremost, the strategy must address the nation's debt. Upon observing the U.S. budget for FY 2015, the solution is readily apparent; the nation needs to increase its GDP and revenue streams while reducing its spending.[29] To increase GDP, the economy must grow through the expansion of business – especially overseas. In a Council on Foreign Relations sponsored report, the Independent Task Force on U.S. Trade and Investment Policy concurred with this assessment stating that,

"…[the way] to create good new jobs and reverse the income decline of the past decade is for the United States to become 'a thriving trading nation'," This entails that the U.S. must change the way it thinks about trade and foreign policy. To do so, the goal of securing greater market shares must become the dominating factor in U.S. foreign policy. This idea is not unique; U.S. foreign policy has always vacillated between a pro-trade and pro-values policy.

In support of the increased importance of trade, the U.S. must regain control of the international system and bend it once again to establish greater trade opportunities for itself and the world. Currently the Obama Administration is feverishly working to finalize the Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). If passed, both of these critical trade agreements will lock the U.S. and a host of other European and Pacific Rim trade players into a new international trade system.[30] Both of these deals are critical in that they establish a system of trade agreements between three regions which are responsible for roughly 60% of all global trade. At first glance, neither of these agreements will produce dramatic growth in U.S. GDP. However, they are exceedingly valuable toward: 1) establishing a legitimate and credible system that is inclusive of existing, emerging and potential trade partners; 2) they reaffirm the nation's position of influence as the U.S. is the driving power behind them; and 3) it sets the precedence by which the U.S. can begin to overhaul other institutions such as the IMF and World Bank.[31]

These factors are complementary to Nye's Smart Power approach in which the U.S. can obtain the necessary clout to attract the emerging countries through fair play, inclusion, and stability.[32] Simultaneously, it allows the U.S. to economically contain the competition by co-opting the market in the same manner. Ultimately, it is about appeal. If the U.S. is offering a better deal while being willing to accept a smaller amount of control, the U.S. will exert more influence and leadership. This is a very important message in today's information age when a tweet can sway public and government opinion in an instant. Nye sums this up well when he said, ''Under the new conditions [of the Information Age], more than ever, the soft sell may prove more effective than the hard sell".[33]

While both the TPP and TTIP are important toward generating market share and reforming the international system, there are some risks. If these agreements open trade by reducing regulations and protectionist measures, then they also expose U.S. businesses and products to foreign competition. While this risk exists, it also an example of why American competitiveness must permeate both the government and private sector. If cannot be limited to the government only. If these U.S. led agreements are successful, the economy will grow slowly but in a more enduring manner. This growth over time will result into revenue increases for the government and payment on its debt.

The next recommendation is a call for the U.S. to become more innovative. Noted author and Harvard Professor, Michael Porter wrote that, "Innovation is the central issue in [a countries] economic prosperity."[34] As a leading authority on strategic competition, Porter has called on the U.S to increase innovation within its business and government sectors. Admittedly, this call is not new. Many successful U.S businesses are innovative; Ford, Google and Apple serve as great examples of what an innovative business culture can accomplish. Despite these successes, there are many more organizations, to include the U.S. government, that are not innovative. Innovation is about ideas, acceptance of change, and assumption of risk. Read any business success story and innovation is a primary reason why the organization succeeded. Therefore, the question is how does a nation become more innovative?

A person or nation cannot wake up one morning and decide to be innovative. Schools, especially higher education, can helps foster its spirit, but they cannot teach it. Competition helps generate it, but it is not the only solitary factor in its creation. This is because innovation is a way of thinking and a mindset that looks at old things in new ways to develop solutions. Most importantly, innovation is a way to avoid irrelevance through change. As retired General Eric Shinseki once said, “If you don’t like change, you’re going to like irrelevance even less.”[35] To avoid this irrelevance and its own ‘Suez Moment’, the U.S. government must embrace innovation and affect change.

A key area where the U.S. government can embrace innovation and drive revenues up is through tax code reform. Currently the U.S is one of the least taxed countries in the world based on the amount of services the government provides.[36] Simply put, Americans by and large receive a tremendous amount of services for very little tax input. To rebalance this and drive up revenue, the government must increase taxes. Despite this necessity, it is problematic for politicians who serve at the will of their constituencies. An innovative solution to this dilemma is to take the increase out of the hands of the politicians by creating a tax system wherein the health of the economy regulates increases or decreases to the tax rate. Used in conjunction with a fixed rate, no exemption flat tax concept, this system removes the politician from the conversation.[37] More importantly, it adjusts itself automatically. If in a recession or recovery phase, the system reduces taxes. If the economy is growing or operating at full capacity, it increases them. The system is fair, impartial and only includes the government episodically.

Another innovative solution is to make taxation part of the national strategy that this paper advocates for. Being a part of the strategy is beneficial as it sequences rate increases and decreases with the overall economic forecast. If timed correctly, this can optimize revenue generation without causing a major disruption within a transitioning economy. Critical to this is understanding is when to start the tax increase in relation to when the economy can absorb it. This is where a strategy can assist in measuring indicators and generating organized options regarding when and where the tax increases need to occur. Admittedly, changing how the country applies taxes and generates revenues is a difficult and politically emotional task. However, the innovation lies in removing the emotion from the equation. If done properly and in conjunction with a well understood plan, a strategy can lessen the overall impacts and remain focused on generating revenue – not election results.

While solving revenue generation through tax reform is important, it only addresses part of the problem. The other and more contentious issue is government spending. To increase the ability to buy down the debt, the government must reduce its spending habit. Similar in nature to tax revision, cutting spending is a significant emotional event. It is difficult due to the wide variety of requirements that are driven and protected by the U.S. political process and the polarity under which it currently operates. This implies that any change to established government expenditures, especially entitlements, will incur intense political scrutiny. A key factor in any change to the U.S.

Budget depends upon a shared political understanding and acceptance of the problem. If U.S. leaders understand the magnitude of the debt problem and its impact on national security, they can achieve consensus and cuts will occur. Consensus is by far the most important aspect of spending cuts. Without it, the inefficient plans like the Sequester which only targets Discretionary spending and not the expansive entitlement based Non-Discretionary programs.[38] Regardless, cutting either requires consensus and in today's political environment, consensus would be innovative.

Assuming the government can achieve consensus, there are two budget pools from which to cut – Non-Discretionary and Discretionary.[39] Non-Discretionary spending is protected by law and therefore requires legislative approval to adjust. It is also where the majority of government spending is located – especially its sacred cows like Social Security. More easily accessible is Discretionary funding which is subject to Congressional approval every year. A large part of Discretionary spending lies within the Defense budget. Politically speaking, the American public habitually supports cuts in Defense over entitlements. In the article "*Fiscal Fetters*", Mark Duckenfield highlights this preference by referencing a New York Times / CBS News poll which clearly indicated that 55% of the American people, regardless of party affiliation, would cut the DoD's budget, followed by Medicare and then Social Security.[40] Duckenfield sums up this preference by quoting economist Niall Ferguson's thoughts on the matter, "Americans like their security. But they like Social Security more than national security."[41] The American public's love for Non-Discretionary entitlements is a primary reason why Congress doesn't target them and instead focuses on Non-Discretionary programs like Defense.

With this love of entitlements, what can the U.S. government do? Based on the American political system, the options are limited. Any politician whose agenda consisted of cutting away entitlements would experience a very short political life span. This is another reason why an innovative and multi-generational strategy makes sense. First, initial cuts and reforms could be small and barely registerable. Secondly, reformers need to implement cuts against entitlement in the future so as not to affect current beneficiaries. If sequenced properly, these changes can greatly assist the government in weaning the American people off entitlements while integrating new and sustainable methods of social support. Overall, this depends upon the will of the leadership. If the threat to the nation is grave, government leaders must set the example for the American people to follow. A way to set this example would be for Congress to terminate Congressional health and pension plans for those that spend less than 20 years in federal government. This would be both an example of will and sacrifice from which to lead the attack on the entitlement system. Regardless, these cuts need to occur as the nation can no longer support them and the revenues which pay for them are required for the more serious purpose of paying down the national debt.

These are just a few of the recommendations that government leaders can use to address the debt problem and create a more competitive economy. They focus on rebuilding American economic competitiveness as a way to preserve U.S. leadership and influence around the world. To achieve this objective, changing economic policy is not enough. Instead, a strategy is required to ensure focus and synchronization of government actions and the elements of national power.

Regarding the necessity of a strategy to answer this threat, it is helpful to remember how the U.S. dealt with the U.S.S.R. during the Cold War. The U.S. saw Russia as an existential threat and it built a containment strategy that remained at the forefront of American policy for decades and endured multiple Administrations and Congressional turnovers. Perhaps, the solution to the U.S. problem lies in a similar but different strategy; one tempered by reality and based on competitive containment – not outright coercion. To be effective, this strategy must account for the world as it is and not how U.S. leaders want it to be. As Einstein said, “We cannot solve a problem by using the same kind of thinking we used when we created them.”[42] Following Eisenstein’s advice, the U.S. must understand the world it created in order to mold, not bend, it to its benefit. The difference this time lies within building partnerships and alliances that are mutually beneficial and appealing to all parties – large, small, developed or emerging.

The U.S. economy is the center of gravity for this concept. It is the primary source of the nation’s ability to retain its influence and power. When healthy, it is the primary tool in which to compete on the international stage. Recently, there are strong indications that the economy is regaining its strength.[43] However, with an $18.2 trillion debt, it cannot fully recovery. The magnitude of this problem should force U.S. leadership, to include members of both political parties, to develop a solution. As with anything in politics, consensus is the key. Unfortunately, consensus is a rare word in Washington these days. As the debt grows, national understanding of the problem will also. This understanding will eventually drive the required consensus and sacrifice to solve it.

Today, some Americans erroneously look to the edge of the map to find the nation's problems. Ironically, they need only to look within the nation's borders to find where the real threats reside. Until they understand this reality, there is little more for them to do than draw monsters on the map and wait their "Suez Moment". However, with foresight, U.S. leaders can avoid this 'moment' if they want to. To do so, they simply need to see the world as it is and not as it was.

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