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ECONOMICS

By Jeffrey E. Garten

Commentary: Bush's Guns-and-Butter Dilemma

Financing foreign wars and boosting homeland security is bound to erode U.S. economic vitality

America's foreign policy and its economic policy are on a collision course. Listening to the Bush Administration's audacious plans to purge terrorists, destroy weapons of mass destruction, and plant democracy around the world, you could be forgiven for thinking that a war in Iraq is the beginning of a vastly stepped-up U.S. engagement abroad. After all, the U.S. is projecting its power beyond the Persian Gulf to countries such as Pakistan, Uzbekistan, the Philippines, and Colombia. At the same time, Washington is bolstering homeland security, expanding border inspections, and installing a Star Wars missile-defense system.

The upcoming invasion of Baghdad should force us to ask whether America can pay for its emerging foreign policy -- not just in Iraq but around the world, and not just in 2003, but for decades to come -- particularly since allies like France and Germany seem unlikely to share the financial burden. If the Administration continues its economic policies, the answer is clear: We won't be able to afford our expansive efforts overseas. To do so, radical changes in domestic and international economic strategy are required. They constitute such major departures from existing policy that it is hard to conceive of their being made. But unless they are, foreign and economic policy will remain out of sync, and both could fail. Here's what is needed:

BUDGET POLICY. Asked about the costs of a war with Iraq, Deputy Defense Secretary Paul D. Wolfowitz told the House Budget Committee on Feb. 27, "We will have no idea what we will need until we get there on the ground." Whether you assume a high or a low estimate, the tab is likely to run into hundreds of billions of dollars over many years. Such amounts cannot be accommodated without aggravating an already acute fiscal problem. The Congressional Budget Office is already projecting cumulative deficits of $1 trillion for the rest of this decade -- and that doesn't count the war in Iraq, humanitarian relief, nation-building, buying the support of allies like Turkey, Jordan, and Egypt, or stepped-up homeland security. It also ignores $25 trillion of off-balance-sheet liabilities for Medicare and Social Security that will start coming due when baby boomers retire.

To fund our foreign policy, President Bush would need to cancel virtually all of his proposed tax breaks, which currently add up to a projected $1.5 trillion over 10 years. Granted, he should do what is necessary to stimulate the economy for 2003, but he would have to drop the grab bag of other proposals that kick in much later. Some conservatives say we should balance the budget by cutting "nonessential" spending. But where would the ax likely land? Not on the military budget, not on homeland security, not on the interest on our growing national debt. Health, education, housing, and job training programs are already under the knife, especially at the state level, where cumulative deficits for the next two years are expected to total more than $130 billion. If spending is curtailed further, we could have the kind of politically paralyzing guns-or-butter debate that characterized the Vietnam era.

COMPETITIVENESS AND PRODUCTIVITY. The Administration's strategy for generating revenues for our growing national security requirements can be summed up as "supply-side economics" -- cut taxes and the subsequent higher economic growth will create more than enough tax revenues. Yet, given the controversy among economists over the effectiveness of this approach, relying on it exclusively to provide the funding for our national security is a reckless gamble. To guarantee the kind of competitive economy we need, Washington would have to do what it has been loath to consider: Develop a broad set of government policies -- other than tax cuts and deregulation -- to increase the productivity of the economy.

A foreign policy that involves continual military interventions abroad while securing the U.S. itself is bound to erode economic vitality. "If security is just about guards, gates, and guns, it will drain our productive capacities," Deborah Wince-Smith, president of the Washington-based Council on Competitiveness, told me. For example, there is a huge risk that in trying to protect our citizens from terrorists, the government will cut off the flow of highly skilled workers into the U.S. Washington could also make it more difficult to disseminate scientific information. And costly border inspections for goods could raise the price of imports.

Washington would have to work with Corporate America to find a balance between anti-terrorism measures and open markets. The Administration and Congress would have to establish a "Homeland Security Watchdog Team" that includes business leaders, economists, and experts on research and development, workforce education, and training. The group would monitor everything that the new Homeland Security Dept., the Pentagon, and the intelligence agencies are doing from the standpoint of America's long-term competitiveness. The business community would also need to step up its efforts to translate new security-related technology into commercial products. CEOs in partnership with the government would have to think about developing new technologies with a dual purpose -- enhancing both security and productivity.

TRADE AND MULTILATERIALISM. Our foreign policy is splitting key alliances. These divisions go beyond the Iraq debate, starting with the Bush Administration's summary rejection of treaties, from the Kyoto Protocol to the International Criminal Court. Washington's unilateral tendencies have also created nervousness in global financial markets on which the U.S. has become dependent. It has made the multilateral trade negotiations -- in which so many American companies have a huge stake -- a secondary priority.

It would therefore be vital for Washington to rekindle the more cooperative spirit in international economic affairs that existed in recent decades. The U.S. would have to give a higher priority to getting the Group of Seven to stimulate global growth. It would have to engage these key nations in plans for postwar Iraq, as well as in policies for nation-building in general. It would have to accelerate global trade talks by offering deeper cuts in textile tariffs and barriers to agricultural imports, and by relaxing patent protection for essential medicines in poor countries. It would have to give more attention to strengthening NAFTA rather than alienating Mexico. In short, the U.S. would have to act as a leader and as a guardian of the global economic order.

There are other views, of course. While defense spending is soaring as a percentage of gross domestic product, it remains less than it was during the Cold War. But it's hard to remember when we had so many other kinds of open-ended policy commitments, from rebuilding Iraq to ensuring the retirement of the baby boomers. Some say Iraq's oil revenues can fund Baghdad's reconstruction. Maybe, but this presupposes that its oil industry can be rehabilitated faster than many experts think possible. Some also believe that after a U.S. invasion of Iraq, France and others may help with financing. Right now, that's only a political leap of faith.

Anyway you cut it, however, there is a disconnect between national security and economic policy. History shows such a mismatch can be disastrous. Paul Kennedy traced the fates of nations such as Spain, France, and Britain that once presided over large empires in his 1989 book *The Rise and Fall of the Great Powers*. He described how each entered a period of long-term decline due to "imperial overstretch" -- the inability to finance its extended military operations. As it faces crises all over the world, the U.S. shows every sign of making the same mistake. Something -- either foreign policy or economic policy -- must give.

Garten is dean of the Yale School of Management and an Economic Viewpoint columnist for *BusinessWeek*. Garten held foreign and economic policy positions in Nixon, Ford, Carter, and Clinton administrations.