



THE INSTRUMENTS AND INSTITUTIONS OF
A M E R I C A N
P U R P O S E



Foreword By
Joseph S. Nye & Brent Scowcroft

Edited By
Kurt M. Campbell & Jonathon Price

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P U R P O S E**

**FOREWORD BY
JOSEPH S. NYE & BRENT SCOWCROFT**

EDITED BY
KURT M. CAMPBELL AND JONATHON PRICE

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From August 3-8, 2008, the Aspen Strategy Group gathered in Aspen, Colorado to assess the instruments and institutions of American power and purpose. Aspen Strategy Group members, government officials, academics, and journalists formed a bipartisan group of foreign policy and national security practitioners from a wide range of government agencies. This publication is a collection of the fifteen papers that were used to guide their discussions during the course of the conference, along with a scene setter and concluding observations.

As ever, the Aspen Strategy Group summer workshop was the result of the support and dedication of a number of groups and individuals. We would like to thank Howard Cox, the Feldman Family Foundation, the Bill and Melinda Gates Foundation, Michael Goldberg, Robert and MeiLi Hefner, Hasty Johnson, McKinsey and Company, Thomas O’Gara, Simon Pinniger, the Resnick Family Foundation, the Ruth and Frank Stanton Fund, Terrence Turkat, and Leah Zell Wanger for their generous contributions that made this workshop and publication possible. Their long-standing commitment and support of the Aspen Strategy Group enables all of the program’s activities and publications.

We would also like to thank our General Brent Scowcroft Award Fellows, Ben Andruss, Danny O’Gara, Julie Song, and Ji Sung Yang, for all their hard work and tireless dedication to this vital initiative. They all, undoubtedly, have a bright future ahead. Finally, our warmest gratitude goes to our co-chairmen, Joseph Nye and Brent Scowcroft. Under their steadfast guidance, the workshop generated lively and constructive debate on the potential challenges to reforming U.S. institutions and possible solutions the next administration might employ to offset these problems. Their leadership and example has allowed the Aspen Strategy Group to flourish and become a model of bipartisan inquiry, dialogue, and ideas.

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Foreword

by ASG Co-Chairmen

Joseph S. Nye, Jr.
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When the Aspen Strategy Group (ASG) met for its annual summer workshop in August 2008, the president of the United States had not yet been nominated; the global financial crisis had not yet claimed its first victim; the U.S. government had not contemplated a \$700 billion Troubled Assets Relief Program (TARP); the six-month ceasefire in Gaza had yet to be broken; and the highly coordinated and sophisticated attacks in Mumbai had not yet occurred. Since that August meeting, the world has dramatically changed. Yet, the instruments and institutions at President Barack Obama's disposal have not.

The Aspen Strategy Group is committed to convening a distinguished group of practitioners, scholars, and commentators to consider the most critical foreign policy and national security issues confronting the country. Recent workshops have covered the dangers posed by nuclear proliferation, the implications of China's rise on the world stage, and the global politics of energy.

In August 2008, the ASG turned its collective attention to assess the instruments and institutions of American power and purpose. Specifically, our goal was to undertake a thorough accounting of the capabilities and limitations of the key organizations—diplomatic, military, financial, and intelligence—that American policymakers rely upon to address global challenges. Though not usually at the forefront of national security concerns, it is imperative at the outset of a new administration to take stock of the tools at its disposal and know which ones have been forgotten, can be used, need to be reformed, or should be discarded.

The ASG is uniquely suited for this analysis, given our diverse membership from across both government and party lines. Conceived as a mediation forum during the Cold War, twenty-five years later it is still charting a vital course for bipartisan problem-solving and dialogue in foreign policy. The mission of the ASG has developed into examinations of new foreign policy trends outside the

Cold War dichotomies of friend and foes and toward transnational or multifaceted issues blending traditionally foreign and domestic subjects. It tackles both global and regional issues and has broadened its lens to give full regard to the economic, social, and transnational dimensions of the issues.

Modern U.S. institutions were created for a bipolar, Cold War world, which has since collapsed. Since then, new institutions have been created, while others were reformed or replaced. With the next administration set to inherit a laundry list of domestic and global challenges, finding the right institution or institutions to handle these transnational problems is a necessity. This summer presented an opportunity for the ASG to distill the national discourse with bipartisan strategies on restructuring the U.S. government and its agencies to address the many pinpricks of the multipolar world.

At the dawn of this new administration, we would like to congratulate several of our Aspen Strategy Group colleagues who have been asked to serve in government. We are confident they will carry the best characteristics of the ASG forward with them in their new positions. As former public servants, we wish them perseverance and patience when dealing with urgent and complex issues; resolve when navigating the intricacies of transnational dilemmas; steadfastness in the face of difficult, multi-dimensional problems; and determination in the pursuit of the greater good.

The Instruments and Institutions of American Purpose: An Aspen Strategy Group Workshop

Preface

Kurt M. Campbell

Director, Aspen Strategy Group

Over the course of the last several years, the Aspen Strategy Group (ASG) has sought to systematically examine the major issues that confront American foreign policy during these early years of the 21st century. The strategy group has considered topics ranging from the global challenges of energy and climate change, the rise of China and its implications for the United States and the conduct of international relations, the larger threats posed by nuclear proliferation, the contours and complexities of the jihadist threat, and an assessment of the changing regional dynamics in the Middle East. These issues, individually and collectively, will require enormous focus, ingenuity, and fortitude in the formulation and execution of American foreign policy and national security in the years ahead.

These previous sessions have generally been about the what, why, whether, and when of American policy pursuits abroad. During this year's session, we turned our attention to a decidedly different set of issues, namely the machinery and institutions of the U.S. government that are tasked with tackling the above set of challenges. Having spent the last several years surveying the proverbial garden, the ASG will attempt to see if the tool shed is a match for the problems at hand. Do we have the right implements to tackle the weeds, overgrowth, drought, and pestilence that plague our global habitat? In the pages that follow, we explore the overall condition and capacities of the U.S. government—in all its many facets—to discern whether it is up to the task of effectively dealing with the tough work that will be required and expected of the next generation of policymakers in order to preserve and protect the security and prosperity of the country. By conducting a thorough

assessment and accounting of the critical convening and implementing institutions of the U.S. government—the National Security Council, the National Economic Council, the Departments of State, Defense, Treasury, and Homeland Security, the Central Intelligence Agency, and Congress—we considered whether they are appropriately configured to handle the urgent matters that lie directly ahead. Are there new capabilities that must be established or are current capacities up to the challenge? Are time consuming reforms worth the effort or is it simply best to try to soldier on with what is at hand? Should some agencies simply be relegated to the ash heap of history and is deconstructing a moribund or extinct federal agency even possible? Further, we examine those other intangibles and institutions—soft power on the one hand and the international financial institutions on the other—which, in very different ways, have propelled American purposes in the international arena.

There now appears to be the makings of a consensus among the necessary actors in Washington that fundamental innovation and reform are necessary to better equip the United States to mount a successful strategy for coping with the Hydra's head of challenges enumerated above. (This is no small feat given that the larger effort for government reform has never had a big or powerful constituency.) For instance, in recent speeches and statements, Secretary of Defense Robert M. Gates has underscored the need for new national institutions to address the manifest “pressures—population, resource, energy, climate, economic, and environmental—that could combine with rapid cultural, social, and technological change to produce new sources of deprivation, rage, and instability.”¹ He also has spoken about the urgency of rebalancing resources between various agencies—in favor of the civilian, diplomatic, and humanitarian missions—and away from the Defense Department to avoid the “militarization” of some aspects of America’s foreign policy. President Obama has suggested that it is “time to reform the United Nations, so that this imperfect institution can become a more perfect forum to share burdens, strengthen our leverage, and promote our values.”² He has also called for the creation of a “Shared Security Partnership Program—a new alliance of nations to strengthen cooperative efforts to take down global terrorist networks.”³ These are but a few of the concepts floating around Washington’s corridors of power these days about how to improve our national capacities to operate more effectively in the world.

Yet, there is still considerable disagreement about what precisely needs to be done and very different perspectives about how to go about doing it. Some believe that it is enough to try to engineer existing agencies while others argue that true and lasting reforms require enacting legislation and negotiating partnerships between the executive and legislative branches. The model often cited in this

regard is the 1986 Goldwater-Nichols Defense Reform Act; but proponents of this approach often overlook several factors associated with this landmark piece of legislation, particularly how long the process actually took. There were calls for such a reform from the chairman of the Joint Chiefs as early as 1979, and hearings on prospective legislative approaches lasted for many years before a bill was ever developed for ratification. There were also serious military failures—in the form of the failed Desert One hostage rescue attempt, the Beirut bombing, and the Grenada invasion—that had to happen first to help spur doubters in the Congress to ultimately embrace the concept. And finally, Goldwater-Nichols was ultimately passed over the strong formal objections of the Reagan administration. Even in the best of cases, the pathway to reform can be lengthy and onerous. With that fact squarely in mind, it's no wonder that many things in government continue on not as we would like them to be, but rather as they were.

The arresting feature of the current architecture of American power is just how many of its key structures (literally) remain the ones that were built and established in the late 1940s in another century and for a very different set of international concerns. Washington's identity is defined by the building boom that was propelled by World War II and immediately thereafter—most of the buildings are of a relative height, architectural appearance, and similar structure. The Cold War provided the inspiration for most of these brick and mortar and steel structures that line Washington's skyline and the occasionally antiquated coordinating mechanisms that are housed within them. These traditional capabilities have generally served the nation well during the nearly forty-year struggle with the Soviet Union and in other global missions, ranging from buttressing the war-torn states of Europe and Asia and promoting development in the third world, to helping establish a global trading regime and regularizing international financial flows.

A remarkable feature of the post-Cold War world, a span that now approaches twenty years, is how very few new national institutions have been established inside the vast U.S. government bureaucracy designed to deal with a new and decidedly different set of global challenges: stateless jihadists, transnational threats like climate change, and hostile encroachments threatening the “global commons” such as in cyberspace. Perhaps it is not an accident that there are no new signature global institutions or national agencies that belong to an era that is primarily identified by a modifier, as in “post.”

Why so few new institutions during this undeniably dynamic period in global politics? Senior government strategists have generally been content to try to adapt the capacities of existing institutions to new missions, to bend the proverbial metal

of existing structures to deal with a new set of international conditions. The reasons for this lack of creation of new institutions in a new and demanding era are many and complex—disagreement over primary missions on top of a deep partisan divide—but it is important to diagnose more deeply the specific reasons for this institutional torpor.

First and foremost, there has been remarkably little consensus both between and within the political parties for what should be done. Republicans have generally been philosophically wary of creating new bureaucracies and Democrats have trepidations about using market-based initiatives and incentives to deal with their manifest areas of global concern, such as poverty and disease. Second, the most important gap is not so much the familiar one between Republicans and Democrats, but the one animated by the seeming tyranny of distance between the Capitol and 1600 Pennsylvania Avenue. Indeed, the frustrations in gaining executive-legislative concord on important institution-building initiatives are legion, and most actors in the executive branch have long ago settled for a “work around” mentality rather than confronting powerfully entrenched and intractable interests. Third, it’s possible that existing capabilities are simply sufficient and the modest new mechanisms that have been created will gain greater capability and credibility over time. For instance, it’s quite conceivable that the creation of some recent institutions—such as the Frankenstein amalgam that is the Department of Homeland Security—will one day seem in the same league as those institutions that came of age in 1947, such as the CIA and the Air Force.

Despite these various considerations and roadblocks, many incoming administrations have set out to immediately put their stamp on the operating institutions of the federal government, mostly by seeking to reform existing parts of the executive branch (and often without the express support or financial commitments from Congress). Yet, this is no easy feat and it can be particularly hard to reform a major agency at the outset of power—witness Les Aspin’s challenges in the Pentagon in 1993 or President George H.W. Bush’s attempts to create a “drug czar” in the White House when he first came to power. Part of our mission at Aspen was to arrive at some areas of consensus over which areas of government are ripe for reform, which should simply be left alone, and which tasks might require a completely new set of government capacities in order to meet a serious challenge.

To be sure, there are a few important exceptions to the general proposition that little has been done in the way of bureaucratic midwifery in the post-Cold War era, including the creation of the National Economic Council during the Clinton administration and the newly configured Office of the Director of National

Intelligence, the recently constituted Millennium Challenge Fund, and the aforementioned establishment of the Department of Homeland Security during the first term of George W. Bush. The Proliferation Security Initiative also shows promise in certain circumscribed areas. But overall, the vast preponderance of tools in the national toolbox available for statecraft remain the traditional ones that have been in use for generations. It is still possible to find a government office with a Wang computer or a rotary phone and the imposing and utilitarian structures of the State Department, Pentagon, and the CIA are veritable and concrete constants on the national scene.

It is also quite possible that we have approached a point of rare political consensus when it comes to the performance expectations associated with the U.S. government on the global stage, and there might indeed be less stomach for bold new missions. In the recent past, the caricature has been that liberals were wary of the insidious powers of the U.S. government abroad but supportive of their expansions at home. Traditional conservatives were always thought to be generally prudent and skeptical about the ultimate capabilities of enormous, market irrelevant, and (in their view) the largely unaccountable actions of federal bureaucracies. It was only the neo-conservatives who entertained a vast confidence in and ambition for what the U.S. government (particularly the armed forces) could do when ably and confidently led. The Iraq experience has served as the mother of all equalizers and levelers for each of these distinct points of view, and there is now virtual unanimity across the political spectrum and among policy experts around modest aspirations for what the vital organs of the American government can actually accomplish in many, if not most, international situations. We might fight about the parameters of Iraq—past, present, and future—but everyone has lost at least some confidence in the capacity and competence of the U.S. government in an overall sense. So this combination of daunting challenges, mixed performance, and manifest overuse has conspired to limit our expectations of what is possible for the U.S. government to successfully undertake across a range of issues in the time ahead.

Much has also been made of the fact that while commerce and industry have raced ahead with innovations large and small, the lethargic bureaucracies of the U.S. government have not moved far beyond 1950s-era practices of management and organization. Every election cycle, some corporate big shot comes to town for an important job high up in one of the key agencies only to be surprised and shocked to find long-extinct models of corporate governance still in practice. It must be, for them, a little like finding one of those Amazonian tribes cut off from the modern world, shooting arrows at aircraft flying overhead. Government agencies

still replicate pyramidal styles of management, decision-making, and information flow. Senior government officials have been known to spend an inordinate amount of time thinking not about how best to utilize new information technologies, such as the internet and e-mail, but rather about how to ensure that these innovative modes of communication are not used to undermine established hierarchies and traditional ways of doing business. The process for clearing a memo at the State Department for the secretary today is eerily similar to the procedures utilized back in the days when Marshall and Acheson roamed the halls at Foggy Bottom. Indeed, the organizational chart of the 2008 Department of Defense looks eerily like the wiring diagram from the General Motors Corporation, circa 1950. Is it truly possible to creatively and flexibly deal with the manifest dangers of the early 21st century through rigid, hierarchical, and inflexible bureaucracies?

To get at these questions and others, we have attempted to combine an agency-by-agency assessment, with some specific examination of mission areas, to explore the institutional and bureaucratic components that are of manifest importance to the U.S. government in the conduct of foreign policy and national security.

Section one is devoted to a full examination of the diplomatic and intelligence capabilities available to U.S. policymakers. Each chapter provides insight on what needs to be done in order to improve the overall capabilities of the U.S. government to operate more effectively in these two respective spheres. There have been at least modest new resources directed to the folks in pinstripes as part of an effort to redress the massive imbalance with the Defense Department (this is sometimes referred to as one agency on steroids with the other on life support). State has also been the beneficiary of a substantial recent consolidation, with United States Agency for International Development (USAID) and the U.S. Information Agency having been incorporated inside the department in an attempt to improve overall coordination and efficiency. Yet there continue to be concerns about the overall performance of both components, with many arguing for a much more focused and potentially expeditionary post-conflict capacity and others worrying about the loss of value in the so-called “American brand,” owing partially to shortcomings in public diplomacy. Our national intelligence organization has also been through a very substantial reorganization—the most significant since the 1947 National Security Act—but there are persistent concerns that the community is still sub-optimally structured to meet the demands of 21st century intelligence. In chapter one, ASG co-chair Joseph Nye examines the importance of “soft power” in America’s overall global engagement.

Section two provides an in-depth examination of the two major institutions trusted to protect the United States, one at home and the other abroad: the Department of Defense and the Department of Homeland Security. In particular, chapter four explores specific lessons the Pentagon has drawn from experiences in Afghanistan and Iraq in terms of organization, institutional capabilities, and overall capacities. Chapter five explores options for organization and capacity building at Homeland Security as a new administration considers how best to protect the American homeland and invariably transitions from version 1.0 to a new (and hopefully improved) version 2.0 of the organizational mission. Finally, chapter six examines the role of Congress in directing American foreign policy, the critical dimensions of the executive/legislative divide, and how these gaps might be traversed by effective policymaking.

Section three is structured around a careful exploration of the treasury, trade, and aid agencies of the U.S. government, principally the National Economic Council, the Treasury Department, and capacities embodied in the American role in the international financial institutions and multilateral development banks. With the unprecedented decline of the U.S. housing and mortgage market, the U.S. fiscal situation under severe strain, and unemployment skyrocketing to levels not seen in over three decades, the Obama administration has taken office at a time of pronounced worries over the prospects of a global financial meltdown. Although the chapters in this book were written in the spring of 2008, well before the crisis hit the front pages in September and October, these issues were swirling in the ASG debate. This section will examine the options available to key U.S. economic policymakers for sustaining American financial leadership in the global arena in the years to come.

Section four will look at the convening mechanisms and the policy planning instruments of the U.S. government that are available to senior policymakers to direct the massive, but occasionally diffuse and disorganized capacities of the U.S. government. The authors explore optimal organization parameters of the National Security Council and how the government might be able to better undertake purposeful planning exercises.

Finally, in section five, the ASG enlisted a few authors to provide discreet case studies on how the U.S. government should organize to address several specific and urgent challenges, notably leveraging the United Nations in pursuit of common objectives, combating nuclear terrorism, promoting public/private partnerships, and dealing with transnational challenges such as climate change.

Through all of these papers and case studies, our objective was to arrive at some shared assessments of how a new administration should consider not just its policy approaches toward the world, but also the institutions and configurations of the U.S. government that must be utilized to actually interact with the world—those government agencies trusted with translating the best of intentions into differences on the ground.

Once, many years ago, I was working and traveling through Africa and had the opportunity to hitch a ride from Dar es Salaam to the city of Arusha at the base of Mount Kilimanjaro. After many miles along the potholed road of our inland journey, we reached a vast stretch of overgrown fields. This area of central Tanzania was once the wheat breadbasket of East Asia, and Western nations had big plans in the 1960s to help Tanzania dramatically increase yields and efficiency to provide food for much of Africa. Back in the days just after the end of colonial rule, these were some of the most fertile fields in the world. However, together we surveyed a very different sight on our journey; as far as the eye could see, fields littered with rusting and broken down tractors donated by well-meaning Western nations to Tanzania after independence. My driver had worked much of his life in development projects in Africa, so he had seen his share of disappointments and ambitious plans brought down by hard realities, institutional hubris, and failed policies. He mentioned the famous quote from former President Julius Nyerere, “Give us the tools and we will finish the job.” Motioning to the rusting wreckage around us, he slyly suggested that this display was more indicative of a different philosophy, “give us the job and we will finish the tools,” an observation that has at least some glancing relevance for the situation as it relates to the capabilities and capacities of the U.S. government today.

This next generation of policymakers will assume power with a clear and present conundrum: a manifest ambition on the part of both presidential aspirants and their key advisors to employ American power to address daunting military, diplomatic, economic, and transnational challenges, but also a quiet recognition on the part of at least some, that many of the tools in the national tool box are either overextended (the U.S. military), inadequate (the State Department), poorly organized (the U.S. intelligence agencies), overmatched (the Department of Homeland Security), insufficient (the international financial institutions and the multilateral development banks), or largely nonexistent (post-conflict reconstruction capabilities). This potential mismatch between expectations and capabilities offers a very real potential for subpar performances and disappointments. Our collective task in Aspen, and

in the pages that follow, was to try to more carefully match intrepid policy with government capacities, to assess the strengths and perhaps as importantly, to gauge the shortcomings of the government, and to plan accordingly.

Kurt M. Campbell is CEO and Co-Founder of the Center for a New American Security (CNAS) in Washington, DC. He is concurrently Director of the Aspen Strategy Group, founder and Principal of StratAsia, and Chairman of the Editorial Board of the *Washington Quarterly*. Prior to co-founding CNAS, he was Senior Vice President, Henry A. Kissinger Chair, and Director of the International Security Program at the Center for Strategic and International Studies. He has been a contributing writer and blogging columnist to *The New York Times* and a consultant to *ABC News*. Dr. Campbell has served in government as Deputy Assistant Secretary of Defense for Asia and the Pacific in the Pentagon, Director on the National Security Council Staff, Deputy Special Counselor to the President for NAFTA in the White House, and as a White House Fellow at the Department of the Treasury. Dr. Campbell was Associate Professor of Public Policy and International Relations at the John F. Kennedy School of Government and Assistant Director of the Center for Science and International Affairs at Harvard University, from 1987 to 1993. He served as an officer in the U.S. Navy on the Joint Chiefs of Staff and with the Chief of Naval Operations. Dr. Campbell serves on several boards, including the Woods Hole Oceanographic Institution, Aegis Capital, the Australian American Leadership Dialogue, the Reves Center at the College of William and Mary, the policy advisory board of the Asia Society, and as Vice Chairman of the 9-11 Pentagon Memorial Fund. Dr. Campbell is also a member of the Trilateral Commission, the Council on Foreign Relations, and the International Institute for Strategic Studies. He is the co-author of *Difficult Transitions: Why Presidents Fail in Foreign Policy at the Outset of Power*; editor of *Climatic Cataclysm: The Foreign Policy and National Security Implications of Climate Change*; co-author of *Hard Power: The New Politics of National Security*; a principle author of *To Prevail: An American Strategy for the Campaign against Terrorism*, and editor of *The Nuclear Tipping Point*. He is the author of two other books, numerous scholarly articles, and many newspaper, magazine, and opinion pieces on a wide range of international subjects. Dr. Campbell received a B.A. from the University of California, San Diego, a certificate in music and politics from the University of Erevan in the Soviet Union, and doctorate in international relations from Oxford University as a Marshall Scholar.

¹ Robert M. Gates, Remarks at U.S. Global Leadership Tribute Dinner, Washington, D.C., 15 July 2008.

² Barack Obama, “A New Strategy for a New World,” (speech, Council on Foreign Relations, Washington, D.C., 15 July 2008).

³ Ibid.

Part **1**

EXAMINING THE FULL SCOPE OF AMERICA'S DIPLOMATIC AND INTELLIGENCE CAPABILITIES

CHAPTER 1

Soft Power and Smart Power

Joseph S. Nye, Jr.

University Distinguished Service Professor,
John F. Kennedy School of Government, Harvard University

CHAPTER 2

The Department of State: Reorganizing for a New Mission

Robert L. Gallucci

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CHAPTER 3

The Intelligence Establishment: Memorandum for the President

Philip D. Zelikow

White Burkett Miller Professor of History,
University of Virginia

“Given the challenges we face, the U.S. cannot afford to neglect the full range of tools in our kit, and we have to organize better to integrate them into smart strategies.”

—JOSEPH S. NYE, JR.

Soft Power and Smart Power

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Power is the ability to affect others to obtain the outcomes one wants. Soft power is the ability to obtain preferred outcomes through attraction rather than coercion or payments. American soft power has declined in recent years. Public opinion polls show a serious decline in America's attractiveness in Europe, Latin America, and most dramatically, across the entire Muslim world. An important regional exception is non-Muslim East Asia, where a recent Pew poll shows that despite China's efforts to increase its soft power, the United States remains dominant in all soft power categories.

The resources that produce soft power for a country include its culture (where it is attractive to others), its values (where they are attractive and not undercut by inconsistent practices), and its policies (where they are seen as inclusive and legitimate in the eyes of others). When poll respondents are asked why they report a decline in American soft power, they cite American policies more than American culture or values. Since it is easier for a country to change its policies than its culture, this implies the possibility that the next president could choose policies that could help to recover some of America's soft power.

Soft and Hard Power

Some analysts have drawn analogies between the duration of the current struggle against terrorism and the Cold War. Most outbreaks of transnational terrorism in the past century took a generation to burn out, but another aspect of the analogy has been neglected. Despite numerous errors, Cold War strategy involved a smart combination of hard, coercive power and the soft, attractive power of ideas. When the Berlin Wall finally collapsed, it was not destroyed by an artillery barrage, but by hammers and bulldozers wielded by those who had lost faith in communism.

There is very little likelihood that the U.S. can ever attract people like Osama bin Laden. Hard power is necessary to deal with such cases. Yet there is enormous diversity of opinion in the Muslim world. Witness Iran, whose ruling mullahs see American culture as the Great Satan, but where many in the younger generation want American videos to play in the privacy of their homes. Many Muslims disagree with American values and policies, but that does not mean they agree with bin Laden. At the strategic level, soft power helps isolate the extremists and deprive them of recruits. Even at the tactical level, as terrorism expert Malcolm Nance has recently argued, “soft power tools—giving small cash gifts; donating trucks, tractors, and animals to communities; and granting requests for immigration, education and healthcare—can be vastly more effective than a show of force” given the “fluid diversity of the enemy.”¹

In the information age, success is not merely the result of whose army wins, but also whose story wins. The current struggle against extreme Islamist terrorism is not a clash of civilizations, but a civil war within Islam. The U.S. cannot win unless the Muslim mainstream wins. While we need hard power to battle the extremists, we need the soft power of attraction to win the hearts and minds of the majority.

There has not been enough political debate in the U.S. about the role of American soft power. Soft power is an analytical term, not a political slogan, and perhaps that is why, not surprisingly, it has taken hold in academic analysis and in places like Europe, China and India, but not in the American political debate. Especially in the current political climate it makes a poor slogan—post 9/11 emotions left little room for anything described as “soft.” We may need soft power as a nation, but it is a difficult political sell for politicians.

Of course, soft power is not the solution to all problems. Even though North Korean dictator Kim Jong-il likes to watch Hollywood movies, that is unlikely to affect his nuclear weapons program. And soft power got nowhere in attracting the Taliban government away from its support for al Qaeda in the 1990s. It took hard military power to end that. But other goals such as the promotion of democracy and human rights are better achieved by soft power. Soft power often takes longer to show effects, but it is often a more effective instrument for accomplishing milieu or contextual goals. In addition, it can create an enabling or disabling environment for the accomplishment of short term goals, as the U.S. discovered in the aftermath of the invasion of Iraq. Skeptics who belittle soft power because it does not solve all problems are like a boxer who fights without using his left hand because his right hand is stronger. Not smart.

Smart Power

The term “smart power” describes strategies that successfully combine hard and soft power resources. A bipartisan “Smart Power Commission” of Republican and Democratic members of Congress, former ambassadors, retired military officers and heads of non-profit organizations was recently convened by the Center for Strategic and International Studies in Washington. It concluded that America’s image and influence had declined in recent years, and that the United States had to move from exporting fear to inspiring optimism and hope.

The Smart Power Commission is not alone in this conclusion. Last year, Defense Secretary Robert Gates called for the U.S. government to commit more money and effort to soft power tools including diplomacy, economic assistance, and communications because the military alone cannot defend America’s interests around the world. He pointed out that military spending totals nearly half a trillion dollars annually compared with a State Department budget of \$36 billion. In his words, “I am here to make the case for strengthening our capacity to use soft power and for better integrating it with hard power.”²² He acknowledged that for the secretary of defense to plead for more resources for the State Department was as odd as a man biting a dog, but these are not normal times.

Military force is obviously a source of hard power, but the same resource can sometimes contribute to soft power behavior. A well-run military can be a source of attraction, and military to military cooperation and training programs, for example, can establish transnational networks that enhance a country’s soft power. The impressive job of the American military in providing humanitarian relief after the Indian Ocean tsunami and the South Asian earthquake in 2005 helped restore the attractiveness of the United States abroad.

Of course, misuse of military resources can also undercut soft power. The Soviet Union had a great deal of soft power in the years after World War II, but they destroyed it by the way they used their hard power against Hungary and Czechoslovakia. Brutality and indifference to just war principles of discrimination and proportionality can also destroy legitimacy. The efficiency of the initial American military invasion of Iraq in 2003 created admiration in the eyes of some foreigners, but that soft power was undercut by the subsequent inefficiency of the occupation and the scenes of prisoner mistreatment at Abu Ghraib.

Smart power is the ability to combine the hard power of coercion or payment with the soft power of attraction into a successful strategy. Recently, U.S. foreign policy has tended to over-rely on hard power because it is the most direct and visible source of American strength. The Pentagon is the best trained and best

resourced arm of the government, but there are limits to what hard power can achieve on its own. Promoting democracy, human rights, and the development of civil society are not best handled at the barrel of a gun. It is true that the American military has an impressive operational capacity, but the practice of turning to the Pentagon because it can get things done leads to an image of an over-militarized foreign policy.

Diplomacy and foreign assistance are often under-funded and neglected, in part because of the difficulty of demonstrating their short-term impact on critical challenges. In addition, wielding soft power is difficult because many of America's soft power resources lie outside of government in the private sector and civil society, in its bilateral alliances, multilateral institutions, and transnational contacts. Moreover, American foreign policy institutions and personnel are fractured and compartmentalized and there is not an adequate inter-agency process for developing and funding a smart power strategy. Many official instruments of soft or attractive power—public diplomacy, broadcasting, exchange programs, development assistance, disaster relief, military to military contacts—are scattered around the government and there is no overarching strategy or budget that even tries to integrate them. We spend about five-hundred times more on the military than we do on broadcasting and exchanges combined. We cut shortwave broadcasts to save the equivalent of one hour of the defense budget. How do we make such trade-offs? And how should the government relate to the non-official generators of soft power—everything from Hollywood to Harvard to the Gates Foundation—that emanate from our civil society?

The CSIS commission proposed that we develop a smart power strategy by: (1) creating a deputy national security advisor charged with developing and implementing such a strategy; and (2) giving him or her the authority to work with the Office of Management and Budget to reallocate departmental funds to fit the strategy. As Richard Armitage and I wrote last year, implementing a smart power strategy will require a strategic reassessment of how the U.S. government is organized, coordinated, and budgeted. The institutional and political challenges to integrating our soft and hard power toolkit have deep roots, and it will take a dedicated effort by the next administration and Congress to overcome them. Increasing the size of the Foreign Service, for instance, would cost less than the price of one C-17 transport aircraft, yet there are no good ways to assess such a trade-off in our current form of budgeting.³ Given the challenges we face, the U.S. cannot afford to neglect the full range of tools in our kit, and we have to organize better to integrate them into smart strategies.

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¹ Malcolm Nance, “How (Not) to Spot a Terrorist,” *Foreign Policy*, May/June, 2008.

² Robert M. Gates, “Landon Lecture” (lecture, Kansas State University, Manhattan, KS, 26 November 2007).

³ See Richard L. Armitage and Joseph S. Nye Jr., *A Smarter, More Secure America* (Washington, DC: CSIS, 2007).

“When national security is at stake, it almost always means correctly characterizing the relationship of diplomacy to the use of force. When that is done well, we are less likely to have to abandon diplomacy and resort to the use of force.”

—ROBERT L. GALLUCCI

The Department of State: Reorganizing for a New Mission

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The nature of the international system has been changing rapidly over the last twenty years. The department of the federal government whose mission it is to adjust to this change and protect our interests in the world has not been keeping up. That is the proposition from which this short paper proceeds. It begins with a sketch of how the evolving international environment challenged the Department of State and its Foreign and Civil Service officers to perform their mission, then looks at how the leadership at State has tried to adjust to new realities, and finally at the issues that remain for a new administration to address.

The Emerging International Environment

While the characterization of the globalized world is a cliché, we continue to regard its everyday manifestations as stunning. The importance of actors that are not nations, but have enormous impact on the security, financial, and physical well-being of citizens of nations, is a reality experienced daily through the operations of multinational corporations, participants in the international banking system, international financial institutions, non-governmental organizations, and the acts of international criminal organizations and terrorist groups, to name a few.

People, cultures, goods, capital, and labor move between continents with relative ease, while the exchange of ideas and news moves globally and instantaneously. National borders have little impact on much of this movement; therefore individual nations often lack the ability to deal with some of the big problems we face today, such as climate change, pandemics, world food shortages, or the growing energy crisis. Economic and political interdependence will only increase over time. Nations may still go to war, but rather than national identity being a root cause, the nature of conflict will more often develop within the sub-national or transnational realms where ethnic, sectarian, or religious tensions can grow, clash, and explode.

This is a world of new threats to national and international security. Nuclear proliferation, for example, is no longer simply a problem of preventing another country from acquiring nuclear weapons: It is now the infinitely more complex problem of stopping the leakage of fissile material from national control to international terrorists who would fabricate a nuclear weapon in another country and detonate it in a third. Traditional concepts of defense and deterrence are inadequate to deal with such a threat.

We must cope with failed states whose governments are unable to support their populace, making humanitarian catastrophes a protracted reality. As much as we hoped democracy would quickly spread after the fall of the Soviet Union, we need to recognize that authoritarian regimes rule over billions of people across many countries. As dominant in hard and soft power as America may be, we need to understand the implications of a rising India and a risen China.

The complex topography of this international environment offers opportunities for American leadership as well as threats to its security. The challenge is to address those issues that are obviously global in character, while at the same time acting locally to promote economic and political development. This includes working to substantially improve conditions of health and strong educational systems in the developing world; helping establish the rule of law and good governance where they are weak; working to achieve internal reconciliation and respect for basic human rights following conflict termination; creating conditions of internal security; and establishing modern communications systems everywhere. In short, we must mount a sustained effort to strengthen the national and international institutions needed to deal with threats to the global commons and create conditions that will support the growth of viable democracies. To rise to this challenge, America's foreign affairs agencies, principally the Departments of State and Defense, must adjust their missions. Arguably, Defense has been adjusting quickly in part because State has been slow to change.

For example, in the war zones of Iraq and Afghanistan, the military has decreased artillery and air defense units to build civilian affairs, police, and psychological operations units. It has increased the flexibility of emergency relief funding to supplement USAID activity and deployed military information support teams to help embassies with public diplomacy. Furthermore, the Defense Department has aggressively increased its language training and added cultural anthropologists to create "human terrain teams" to supplement its commands. Secretary Gates has said flatly that the military has had to fill "the void created by the absence of civilians available to deploy and operate in different and dangerous environments."¹

Part of the problem at State is resources. During the 1990s, the Department froze its Foreign Service Officer (FSO) hires for a time. USAID permanent staff fell to 3,000 compared to an earlier high of 15,000 officers, making the agency largely a contract management staff. Fully one-third of USAID's professionals are now eligible for retirement. For years, while the DOD budget grew each year, the international affairs budget request was cut. It was Secretary Gates who recently noted that the entire foreign affairs budget request of \$36 billion was just about what the Defense Department spends on health care, and that in FY08, the Army will add a number of soldiers roughly equal to the total number of Foreign Service officers. Gates pointed out that State "simply does not have the built-in, domestic constituency of defense programs," helpfully adding that "the F-22 aircraft is produced by companies in 44 states; that's 88 senators."²

While it is true that the Department of State has not received adequate funding to perform its mission, it is also true that the culture of the department has been slow to embrace a new mission. Traditionally, State has focused on government-to-government relations—placing its emphasis on observation, reporting, and diplomatic representation overseas—and on policy formulation in Washington. The emerging international environment requires that the department adjust its mission to an increased emphasis on operations, greater activism, and a decentralized presence overseas. State must play a more active role in reconstruction and stabilization activity, delivery of foreign assistance, and effective public diplomacy. Its officers need to be part of American efforts to build democracy, improve law enforcement, protect the environment, deal with refugee problems, and promote American business. This means that FSOs will have to develop deeper political connections, going beyond the regime in power to pursue partnerships with aid recipients and extending lines of communication and cooperation. They will have to be more effective at the traditional mission of accurate reporting and analysis, while taking on more active missions of direct involvement with citizens beyond the diplomatic community.

The Department Adjusts

In January 2006, Secretary Rice described her vision for change at the Department of State and called it "transformational diplomacy." The purpose of the changes would be to put the department in a position to "work with our many partners around the world, to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system."³ Change would come both in Washington and overseas.

At the department, a new Director of Foreign Assistance (DFA) position was created at the deputy secretary level to ensure that foreign assistance programs were consistent with foreign policy objectives. The DFA, who is also the USAID administrator, has direct control over about half of the U.S. government's development assistance, with the other half controlled by other agencies who only receive guidance from the DFA.

In order to address the need for humanitarian assistance and nation-building after a conflict or crisis, the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) was created by Secretary Powell in 2004. Secretary Rice made the S/CRS part of her proposal for transformational diplomacy, giving it the critical mission of coordinating U.S. civilian agencies with the military, the United Nations, and other multilateral organizations. It would also develop training for civilians to deploy with the military in post-conflict operations. As part of this S/CRS effort, the Active Response Corps (ARC) was created in 2006, composed of State Department officers who volunteer for one-year tours. This "expeditionary arm" of the department could deploy with the military and ready the ground for a larger deployment of teams of experts to assist in reconstruction. This Stand-by Reserve Corps (SRC) is composed of both active-duty and retired FSOs. The SRC roster now has about three-hundred officers. The president proposed that a third unit—the Civilian Reserve Corps (CRC)—be created for longer-term development. Members of the CRC would be drawn from a variety of fields and professions and would aid in reconstruction efforts. ARC teams are, or have been, deployed in Sudan, Kosovo, Liberia, Afghanistan, Nepal, Haiti, Iraq, and Chad.

An increased emphasis on public diplomacy and training of FSOs is part of transformational diplomacy in Washington. After the United States Information Agency (USIA) was terminated in 1999 and its operations folded into the Department of State, the importance of its mission was diminished relative to the other functions of the department. However, transformational diplomacy has refocused attention on public diplomacy with the goals of fostering a sense of common interest with people of other countries and a vision of opportunity based on American values, while isolating and undermining violent, extremist movements. Within the department, the Bureau of Public Affairs has created a Rapid Response Unit to monitor foreign broadcasts and blogs. The bureau produces a daily report on issues raised, along with the concurrent U.S. policy position so that senior government officials will have access to a current, topical American message. At the same time, the department has taken steps to substantially increase the presence of U.S. officials on media outlets overseas by allowing embassies greater independence and

freedom to speak out and by supporting a regional, rather than a strictly bilateral, approach to issues.

Training at the Department of State had never been given the priority it had in the military culture. However, initially with Secretary Powell and his Diplomatic Readiness Initiative (DRI), and later as part of transformational diplomacy, classes at the Foreign Service Institute (FSI) have increased by more than sixty percent. Emphasis has been placed on training in reconstruction and stabilization, foreign assistance and development, public diplomacy and media, long-term economic training, and, most importantly, language training, the area in which we have the greatest need.

Transformational diplomacy has also brought a shift in resources and important changes to the Department of State's operations overseas. The Global Repositioning Initiative has shifted several hundred positions from Washington and Europe to the Middle East, Asia, Africa, and Latin America. FSOs in these positions will be expected to take on a greater role in managing programs and building institutions in countries whose futures are important to the United States.

New, small American Presence Posts (APPs) are being established outside select capital cities to connect with countries' provincial and trade centers as well as labor and media interests, all to enhance outreach and promote American commercial and political interests. Virtual Presence Posts (VPPs) of one or two officers are also being established within embassies to connect with particular cities by creating internet sites which are used to communicate relevant news, answer questions, and provide relevant material. In order to continue to provide physical access to material about the United States and space for programming in the wake of the closing of USIS libraries—and at a time when security concerns preclude easy public access to our embassies—the department has established “American Corners” in local public institutions like libraries and universities. These spaces are run by the host institution under contract with our embassies and contain books and other materials about the United States and provide a venue for open programming. Taken together, these initiatives represent an effort to repair our public diplomacy and prepare FSOs for more operational roles to serve new American objectives abroad, while taking advantage of modern technology and communications.

Issues and Recommendations

A number of issues arise from the Bush administration's efforts to change the mission and operations of the Department of State to better serve the national interest. With respect to the creation of the S/CRS, critics have questioned

whether it has the authority and resources to allow it to take the lead in coordinating all the departments and agencies involved in reconstruction and stabilization operations. They suggest the task would more appropriately be assigned to a new cabinet-level department rather than a small staff within the Department of State. Concerns are also raised about the adequacy of the DFA's authority to bring real coherence to our overseas programs. More fundamentally, those long involved in foreign assistance worry that the new enthusiasm for having USAID support our foreign policy goals will diminish our interest in the traditional goals of promoting sustainable development and alleviating poverty. Indeed, they point to the shift in foreign assistance funds from Development Assistance (DA) to the Economic Support Fund (ESF) and our new emphasis on the strategic importance of states rather than their economic need as a clear signal that long-term development as a goal has been replaced by short-term political objectives. Of course, the proper balance in objectives has long been a contentious issue.

An analytically similar critique has emerged with respect to all the effort that has gone into enhancing public diplomacy within the department. Specifically, the concern is that the enthusiasm for being "on message" is more appropriate for a political campaign than for the projection of American democratic values abroad. The argument is that the old debates between USIS officers and embassy political officers about the extent to which sponsored events ought to support policy has disappeared, and that American credibility on the value of debate and diversity has disappeared along with it.

In the above section entitled, *The Department Adjusts*, focus was placed on the efforts of the Bush administration to respond to the criticism of the Department of State and the Foreign Service that had been accumulating in the post-Cold War world. The paper highlighted Secretary Rice's moves to shift the department's focus geographically away from Europe, and to change the service's culture to be more active and operational. For those who regard these changes as correct in direction and magnitude, the issue will be whether or not the resources will be made available, and if the will to use them for this purpose will continue. For those (in this country and overseas) who see too much paternalism, too much involvement in other countries' affairs, too much effort to export American values, and too much intolerance of diverse cultures and routes to modernization and governance, the issue will be whether or not the next administration will take a hard look at transformational diplomacy to see if it is indeed serving America's interests.

Another broad critique goes to the role of the United States in international and multilateral institutions. While this is first a matter of foreign policy with

implications for the institutions and people who implement it, critics frequently note that the department needs to do a better job of properly staffing missions to international institutions if we expect to use the institutions to deal with such critical issues as the environment, health, security and development.

A third critique focuses on security, specifically the way the department is structured to deal with arms control: nuclear, chemical, and biological weapons proliferation; ballistic missile and conventional weapons spread; regional security, munitions and export control; and verification and compliance issues in arms control agreements. While all these were once contained in the Bureau of Political-Military Affairs, these functions were disaggregated into several bureaus during the Bush administration, and some functions were collapsed yet again. There is substantial agreement among critics that the current organization does not serve us well.

There are, in fact, some recommendations for a new administration that should be considered for adoption. The first is that if we wish to see the Department of State have the capacity to take on the kinds of roles appropriate to this new century, it will need more resources and more people. A round number of one thousand more officers is the right order of magnitude—less than a ten percent increase, but essential if vacant positions are to be filled and if there is to be sufficient “float” to permit serious, sustained training. Simply put, the department is its people. A lot has been done to improve recruitment and retention. The quality of our officers is excellent. We need an agreement between Congress and the executive branch that the department’s numbers will be substantially increased and the resources will be made available to support its new hires.

Second, while there may be debate over the wisdom of the geographical shift in FSO assignments and the move out of capitals, there must be recognition of the need for operationally oriented FSOs to serve in post-conflict and crisis environments. The service has always produced officers who excelled in assignments to dangerous, poorly-supported (but critical) posts, but the numbers were never enough, and they are now woefully inadequate. It will require positive intervention to recruit such officers and to create career paths and incentives so that they can succeed within the department. As we have discovered in Iraq and Afghanistan, it is particularly important that mid-level and senior officers are available for such service.

Third, while we ought to acknowledge that having independent agencies to foster international development and project American values abroad—USAID and USIA respectively—created strong advocates for their missions, re-establishing them as they once were may not be the best way to recapture what was lost in the integration of their functions into the Department of State. We need a consensus,

articulated by the president and the secretary of state, on the purpose of American assistance to other countries and the mission of those charged with conducting public diplomacy. Both of these functions belong under the secretary—to ensure coherence and efficiency—but must be organizationally insulated from the need to respond to short-term policy objectives. This will be no easy task, but it is the right direction in which to head.

Fourth, the political-military, proliferation, and arms control area needs to be organizationally reconsidered. Again, recreating the Arms Control and Disarmament Agency is not the answer, but proliferation ought to have its own bureau, with at least heavy emphasis on nuclear proliferation in light of the threat posed by nuclear terrorism and concerns about nuclear weapons programs in Northeast and South Asia and the Middle East. In addition, arms control and verification ought to be handled together in a separate bureau. When verification and compliance are broken out from arms control, they have a tendency to become ends in themselves, rather than means to achieve national security objectives. Traditionally, for expertise in those areas, the department depended heavily on civil servants. Special efforts may be needed to build that expertise again as a result of atrophy in recent years.

Fifth, the department needs to invest more resources into adopting and integrating technology into its operations, improving the sharing of knowledge within the department and with its overseas posts, and taking full advantage of communications technology for internal and external operations. There is vast room for improvement in all of these areas, each of which is critical to improving the management and administration of the department.

Sixth, the leadership of the department needs to understand what FSOs already know: operations overseas, particularly with the engagement involved in transformational diplomacy, involve serious risk which needs to be managed. There are implications of risk for training, for families, for the timing of assignments over the course of a career, and for the management of consequences that must be provided for and well-resourced.

Finally, the president and the leadership of the department must take on the task of creating respect for the department's mission; that is, cultivating diplomacy as vital to protecting national interests and the national security. This is essential to securing the resources needed to sustain change in the way the Department of State conducts its operations. It starts with recognition of the quality of the officers the department recruits each year and the qualities needed today to represent the United States abroad. FSOs must be knowledgeable of other cultures, trained in

foreign languages, capable of taking initiative and independent action in challenging environments, and be able and eloquent advocates for America's interests under conditions of hardship and substantial risk. In addition to winning respect for diplomats, the president and secretary of state must ensure others also properly regard, recognize, and respect the essential role of diplomacy. When national security is at stake, it almost always means correctly characterizing the relationship of diplomacy to the use of force. When that is done well, we are less likely to have to abandon diplomacy and resort to the use of force.

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¹ Robert M. Gates, keynote address, Center for Strategic and International Studies, Washington, DC, 26 January 2008.

² Ibid.

³ Condoleezza Rice, "Transformational Diplomacy" keynote address, Georgetown University, Washington, DC, 18 January 2006.

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“The intelligence establishment has experienced the largest and fastest increase in strength since the 1950s and early 1960s. But, in contrast to that period, the establishment today is less sure of itself; rightly worried about public trust.”

— PHILIP D. ZELIKOW

The Intelligence Establishment: Memorandum for the President

Philip D. Zelikow

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You have inherited an intelligence establishment that has undergone tremendous growth and change during the last seven years. The establishment is unsettled, still trying to knit together its component parts to produce value commensurate with its effort and expense. And the establishment is uneasy, sensing that public confidence in its work and public trust in its conduct has been damaged.

In 2007 and 2008 the establishment was led by a cadre of longtime professionals with the key agencies headed by men who spent their careers in military intelligence. This had strengths and weaknesses, but among the strengths were a fundamental soundness in overseeing line operations and strong skills in managing the institutions. The most serious failures in operational and analytical judgment are now in the past, though there are some large legacy issues that will require early attention.

But though it may seem you have heard all about the controversies surrounding the intelligence establishment, the basic workings of this confederation of agencies are more obscure than you may think—obscure even to many who work in the business. The vivid headlines and arguments pick up only a small piece of what is really going on, which is mostly unexciting (except to the specialists involved), yet very, very important. And the public arguments are not a good source for original or deep insights. Among insiders and outsiders alike, arguments about the intelligence establishment too often simply run back and forth along well-worn grooves of habitual orthodoxy and reflexive dissent.

A better place to start might be to think about the fundamentals under three overarching topics: 1) management; 2) using all this intelligence to make us smarter; and 3) rebuilding trust.

Managing the Confederation

Today's intelligence establishment consists of a multi-agency national intelligence program and a multi-agency military intelligence program. Together, these programs spend more than \$65 billion a year, not including budget supplementals, and employ about 200,000 people as direct hires, not including jobs indirectly generated by procurement. Current plans for expansion of the uniformed military include a sharp demand for more intelligence billets—several thousand more are part of the planned expansion of the Army and Marines.

The intelligence establishment has experienced enormous growth since 9/11. If you have not seen them yet, you will probably soon visit large, handsome new complexes of buildings near Tyson's Corner: they house the Office of the Director of National Intelligence, new national centers for counterterrorism and counterproliferation, and collocated offices for related CIA and FBI activities.

Since 9/11, the CIA's budget has tripled. Interestingly, the CIA's personnel size has only grown by about twenty-five percent, still below Cold War levels. In other words, much of the money is being spent on acquisition, contractors, and covert programs. Veterans at Langley say that about one out of every three badge-holders walking the halls is a contractor.

Across the intelligence establishment, and especially within the national intelligence program, most of the money buys—and most of the people manage and operate—collection hardware. In our information age, analysis of the information collected or otherwise available is allocated less than twenty percent of the people and no more than ten to fifteen percent of the budget.

Neither you, nor any other national policymaker, sees much of the yield from all this collection hardware that consumes most of the intelligence establishment's time and money. Much is devoted to field operators, including targeters of terrorists and more stationary objects, and much of it goes toward military priorities, including cataloguing foreign military dispositions and weapons systems development.

It will be tough for you to figure out how much you can or should spend on these collection efforts. How much is enough? Hard to say. Why? Six reasons:

1. The systems are technical and extremely capital-intensive. They are produced under security constraints that increase costs, limit the available producers, and make it harder to figure out if the end product can be attained any other way.
2. There are big money issues—multi-billion dollar issues—involved in getting the desired overhead collection (e.g., satellites, overhead in this case, meaning

collected from above the earth). These issues have been brewing for more than ten years and have not been satisfactorily resolved. Before your administration is over, there will probably be a crisis over whether the United States can maintain the overhead capability its agencies desire and are used to having.

3. There are other big money issues, also on a multi-billion dollar scale, in signals intelligence. The recent public debate over FISA renewal is small potatoes compared with the more fundamental questions about whether the United States can adequately collect information against states or groups that are technically sophisticated and understand how our systems work. These are not surface-level problems. You will see some wonderful tidbits, but you won't see what we can't get. And there is even some danger that certain countries might already be gaming our systems to manipulate what we do receive. (This is separate from the cyber-security issues that have already been getting much more attention and money from the former Director of National Intelligence, Mike McConnell.)
4. Ongoing wars create an unquenchable thirst for more data. Every platoon leader in Iraq would like to have his own dedicated UAV providing real-time images of the rooftops and alleys in his area of operations, not to mention his own analysts and Arabic-speaking intelligence operators and interpreters. And, at times, during given operations, the platoon leader has gotten his wish.
5. The public and many members of Congress like the idea of hiring a lot more spies. A great many people have been hired to help recruit agents overseas, and a few of the new recruits may even become agents themselves. But it is hard to gauge, even from the inside, the relationship between inputs and outputs in this line of work. The institutions tend, understandably, to bureaucratize the process into expectations about how many people have been hired, whether the numbers are going up or down, measuring how many reports have been filed, making unchecked assertions about the value of what they're getting, and so on.
6. Quite a lot of the key human intelligence collection comes from liaison relationships with foreign agencies. This vital process tends to be ad hoc, and it has grown substantially since 9/11.

Beyond the particular issues in one collection discipline or another, what is the bottom line? Overall, the U.S. government appears to devote huge effort and funds to collect an incalculable amount of information, some of it quite valuable. It is hard to comprehend or assess the value of these efforts outside of the established, rather circular, routines of demand and supply.

This situation was sustainable in a generous budget environment for the last seven years. It is hard to see, however, how the budget trends of these seven years can be sustained for another seven. Hard choices have been deferred, but they are coming.

Meanwhile, the United States devotes relatively little effort to the analysis of available information. This is a fundamental imbalance in resource allocation: over-investment in collection and under-investment in processing and analyzing what is out there. And this at a time when much more information about international developments is available in open sources, where the key challenge is to process and sift what is already at hand.

Yet, to correct this imbalance, the more fundamental problem is quality, not quantity. The intelligence community does an amazingly poor job of harvesting the cumulative knowledge and talent of its experts and its databases. I'll say more about analysis in the next section. But my overall impression is tragic: so many good people with so much insight in their heads, yet a constant sense that these insights, or just the professional norms of rigorous analysis, are so inefficiently conveyed to those who need them.

Resources should be made available for better analysis. But first get a convincing program for improving the service and only then be willing to fund it.

The new director of national intelligence has improved your government's ability to manage the confederation of agencies that work on intelligence. You may have heard claims that the DNI's office is bloated (another fat layer!). It is too large, partly because it includes legacy staff from several old entities from the director of the Central Intelligence Agency, like the Community Management Staff. But this staffing argument is not really worthy of presidential attention. The big issues are:

1. The character of the DNI and his top team. The creation of the DNI strengthened the capability to manage the confederation, but someone still has to be willing to use the available powers to do it. With Rumsfeld's departure and the arrival of a replacement team of intelligence leaders (McConnell, Hayden, Clapper) that potential was at last beginning to be realized. The Blair, Panetta, Clapper combination looks promising.

2. Objective measures of DNI effectiveness. You could ask:

- Can the DNI move significant amounts of money (that is, up to a billion dollars or more) across agencies from one function to another?
- Can the DNI provide common “back office” and human resources functions (for instance, on topics like security clearances and information sharing) across the community? Or
- Can the DNI exert needed influence on personnel selection of subordinates?

To all three of these questions the answers from the last two years show some promise. On the first, for example, DNI McConnell reportedly passed the “billion dollar” resource reallocation test. Learning from those steps, the DNI’s powers were also further strengthened in Executive Order 13470 issued by President Bush in July 2008 that amends EO 12333.

3. The CIA-DNI relationship. The CIA, which always felt that it belonged directly to the president, still feels demoted by the creation of the DNI. The resentments show up in complaints about whether the DNI does too much foreign travel and liaison, or whether he spends too much time briefing the president at the expense of his core management job. You need to be aware of these concerns. But you may prefer to see this problem as one to be managed mainly by thoughtful selection of the personalities to inhabit the two key jobs—DNI and CIA director—to be sure they can find the right balance.

The DNI and the rest of the intelligence establishment need policy guidance from you and your chief advisors to set priorities. This guidance has usually been manufactured in an interagency process run by the NSC. But it has often been little more than a pro forma annual exercise briefed to principals, who could do little to influence the machine beyond giving it a kick or two.

Almost any system that ranks intelligence priorities tends to become debased so that everything is important and nothing gets pushed over to the side or examined too closely for cost versus value. Moreover, the intelligence agencies tend to run the process themselves, without much serious engagement from the policy officials

who are supposed to be giving them guidance. Fortunately, during the last few years the system for setting these priorities has been thoroughly revamped. It is working somewhat better—good enough so that you do not need to worry about it right away.

Such a formal NSC process still works best for guiding technical intelligence efforts, since these involve the appropriate calibration of machines and logarithms. But this process is inherently less able to guide human collection work. The best guidance will come from a DNI who is plugged into the national policy priorities, from an engaged president, and from congressional committees better able to offer useful oversight and strategic advice. (The 9/11 Commission’s recommendations on congressional reform of intelligence oversight have been widely commended, but not enacted.)

Does All This Intelligence Make Us Smarter?

Given the expense and scale of our intelligence effort, even friends of the intelligence community sometimes wince as they think about the value of the end products for the end user. Every president, from at least Harry Truman onward, has left a record of saying something that adds up to the old Peggy Lee refrain: “Is that all there is?”

I expect that former DNI McConnell briefed you on a top-level planning document—a “Vision 2015” for the intelligence community. It is modeled on the 1996 document, “Joint Vision 2010,” produced under then-JCS Chairman General Shalikashvili, that helped guide the next generation of planning and innovation in the armed forces. “Vision 2015” will emphasize the integration of networked information from the various foreign and domestic intelligence agencies in order to give you and others in government “decision advantage.”

You and your subordinates will indeed get “decision advantage” if you can improve your appreciation of the many policy situations you encounter each week. So sit back for a moment and consider the ingredients that go into the appreciation of a situation. It is really a combination of three kinds of judgments that interact with and inform one another:

1. Reality judgments (what is going on);
2. Value judgments (what do I care about); and
3. Instrumental judgments (what can I or my colleagues do about this).

These judgments look sequential (first 1, then 2, etc.) but they are not. They are simultaneous and iterative. They interact with and inform each other. For example: You may be concerned about terror sanctuaries in the frontier areas of Pakistan. You will make a judgment about how dangerous the situation has become—this, in turn, will influence your judgment of how much to care about it. You may be told of a terrific opportunity to damage an al Qaeda network near Peshawar (an instrumental judgment). That instrumental judgment will grab your attention (you will care more about the problem) and you will want to hear more about the details of this network and what it is doing (reality judgment), so that you can weigh the tradeoffs that might affect our broader concerns with Pakistan (another appreciation). Intelligence assessments can improve the quality of each of these judgments.

It follows, then, that our intelligence establishment will be most effective when it is plugged tightly into policy and operations. Indeed, that is part of the story behind one of the finest intelligence efforts in recent years—the intelligence operations fusion against al Qaeda in Iraq. The platform was built by DOD’s Special Operations Forces. Based in Iraq, it fuses every collection discipline. It employs an interagency team of interrogators and analysts, from DOD, CIA, FBI, and more, tightly linked to operations—and the questions, issues, and opportunities that come out of continuous intelligence-operations cycles.

The value of closely linking intelligence with policy and operations has been demonstrated in the field, in the U.S. military and law enforcement, and in practically every major intelligence success story documented in history. Unfortunately, this vital linkage is broken, by design, in one place—the use of civilian intelligence in Washington, D.C.

As president, you will probably follow the precedent of your recent predecessors and devote thirty to sixty minutes every morning to getting updated on what is going on around the world. You should consider how best to use that time. If starting from a clean slate, you would have a hard time coming up with anything as cumbersome and fragmented as the current system:

- The current system will offer you a presidential daily brief (PDB) drawing on some relevant information, but detached from or ignorant of the particular policy calls you are making or variables that may be critical to those decisions.
- If the information is especially important and sensitive, the sub-cabinet officials who are best able to incorporate the data into policy moves will not be told about it. (They do not get the PDB.)

- State, Defense, and your economic team will try to get you updates through other channels.
- The White House Situation Room and the national security advisor will try to work up other briefing materials that are broader and more policy relevant. Some national security advisors will even get the PDB first, earlier in the morning, before they sit with you to hear it again, so they can pull together all the complementary information you will want to know about when you hear the intelligence briefing.

Hardly any wonder, then, that some presidents quietly indicate that they would just as soon spend their time studying the newspapers or the Internet.

We handle matters this way because much of official Washington venerates the belief that intelligence must be carefully separated from policy in order to preserve its integrity. I question this for three reasons:

1. The practice is a peculiar product of the academic personalities and habits that shaped one part of the U.S. intelligence community in the 1940s and 1950s (when this group of intelligence estimators then played a rather limited part in analyzing needed intelligence). This influential group of venerated analysts nurtured easy analogies to academic freedom, but this analogy breaks down in contrasting the requirements of scholarship with the requirements of policy and operations.

The tradition violates key precepts for effectiveness followed in our own military and law enforcement efforts. It sets us up in classic patterns of intelligence failure. Ernest May's great treatise on the 1940 fall of France carefully documented a tale in which the French had great intelligence and the Germans lousy intelligence. But the German analysts shrewdly informed their military's planning while French analysis played little part in guiding its side's moves.

2. The disconnect has actually done little for analytic integrity. Integrity comes from people and their character, not the placement of boxes on a chart. Any intelligence director who is successful will be close to his or her chief. And the chiefs will either welcome honest, bracing advisors—or not.

3. Meanwhile the disconnect breeds dysfunction. Cast into a passive-aggressive role, analysts throw overly generalized “key judgments” over the transom. Policymakers seldom find the judgments terribly relevant to the granular issues they face and instead regard them as political hot potatoes they must reckon with. The result is plenty of mutual suspicion and not enough “decision advantage.”

You should consider a fresh approach to how to make the most of that morning time. Consider a system that integrates executive departments with the intelligence community. Don’t be afraid to do what FDR did: put your departmental executives on the spot for giving you key updates and being accountable for them.

And, more broadly, you should encourage intelligence-policy connections marked by fusion and integrity. Nothing sharpens analysis like constant peer interaction, including with the peers who must put information to use. That’s what your agents and soldiers have already learned the hard way in the field.

Even as you muse about how to improve the process, you might also think about content. After all, it seems—from the press at least—that the intelligence agencies always seem to get the big issues wrong, are always being caught flat-footed. The rap is exaggerated: Those who have carefully studied the relevant records have found that often the agencies did a better job than is generally believed, although there have been some recent problems (like WMD in Iraq).

Nonetheless, you still have the bottom-line question: What are you entitled to expect from good intelligence analysts?

1. They should help you identify presumptions embedded in your policies and then help you test them. Although it is human nature for them to point you where the light is shining, not call your attention to shadows, they should tell you what they don’t know, not just what they do know or can guess at.
2. They cannot and should not handicap horse races or forecast the future; their job is to help you shape the future. In other words, their job is to identify and push the variables—especially the variables the United States can affect.

The “paradox of prevision” (the term is from a French historian, Marc Bloch) is that the better the prediction, the more likely it is that people will react to it, and thereby falsify it.

In fact, we often guess right about what foreign governments would do if the key lower-level officials, whose views we tend to understand better, had their way. But like Hitler in 1938 or 1940, or Khrushchev in 1962, sometimes a top leader can scramble the odds. And there is another issue: How can we know what our foreign counterparts will do when often, just like us, they haven't figured it out yet?

For these and other reasons, point predictions are often a sucker's game. This is true among bettors in bond markets (think 1860 or 1914) as much as among intelligence analysts. The habit of introducing documents with "key judgments" is therefore problematic because the format invites deterministic predictions that analysts really cannot/should not make and which analysts then feel obliged to hedge. The key judgments push the reader away from the back story (what makes them tick, what are they debating?) and into conclusions that are more abstract and less useful.

3. You are entitled to expect professional attention to craft; and to the highest standards of that craft. Analysts are teams of professionals backed by unique and expensive resources, tools, and legal authorities. Above all, that is their comparative advantage.

The core 9/11 problem was not the mere failure to provide tactical warning of the attack. In addition to certain specific operational failures in case management, the real problem was the intelligence establishment's failure to apply its own best practices for how to work problems of warning. This was a craft laboriously honed over sixty years of experience, yet the principles of that craft were not applied, in 2000-2001, to the enemy that everyone knew was most likely to attack the United States. Similarly, the core of the WMD Commission's indictment on Iraqi WMD performance was the failure to apply the best practices already developed and understood within the institutions.

The forecasting process is more important than getting a forecast: The process of working the problem identifies the key warning indicators, debates, odd beliefs, or individual leanings that may turn an assessment one way or another. That kind of knowledge can then guide our actions.

Thus, the greatest benefit to you would be to engage directly in the process of working the problem and to glean those insights. If the problem is important, that is the most valuable way to use your time. That was one of Eisenhower's great virtues: Plans were worthless, he used to say, but planning was everything. He knew that a decent process—just by airing information, assumptions, and back stories about issues and people—would litter the table with the key insights for understanding, readiness, and action. Don't wait to be handed a bottom line briefing in which the key guesses have already been papered over—that was one of Bush's mistakes in the Iraq war planning.

Even with the best professional effort, intelligence officials face many inherent limitations on what they can know, understand, and communicate in an effective and timely way. If your expectations are realistic, and their products are less abstract, the relationship will be more productive all around.

Restoring Trust

The intelligence establishment has experienced the largest and fastest increase in strength since the 1950s and early 1960s. But, in contrast to that period, the establishment today is less sure of itself; rightly worried about public trust. The Bush administration gave considerable attention and a huge infusion of resources to the intelligence establishment, but it has strained to the breaking point the social contract that underpins the enterprise.

Intelligence work is one of those realms of government activity in which the state entrusts people with exceptional powers for good and ill, powers not easily accommodated in a society founded on limited government, public accountability, and the rule of law. For example, when we give many soldiers and policemen the lawful power to kill and hurt other people, we do this knowing that the public cannot know how these powers will always be used. In other words, there is a fundamental social contract of trust formed. The contract can be stated in this way:

- We, on the outside, do not know what will go on in every surveillance operation, alley fight, or precinct house. We will grant extraordinary powers to thousands of people we do not know, people who will use these powers in situations we often will not be aware of or understand.
- So we have to be able to trust your organization and its professionals. To earn that trust you must convince outsiders that your organization will try hard to

stay within the boundaries the American people understand and accept. We need to see that you train people to respect those bright lines, even under terrible stress. We expect that abuses will be rare and will be dealt with in a way that retains our trust.

Such a social contract is an essential foundation to granting intelligence agencies—with thousands of employees, conducting many operations around the world—extraordinary powers to intercept communications, break laws in other countries, and even use lethal force to defend our country, all in secret. For a great many Americans, and a great many foreign citizens whose cooperation we also need to carry out effective operations, the last seven years have strained, or even torn, the necessary social contract.

When the contract is broken, Congress and the courts lose faith in executive assurances of appropriate behavior. They will then respond in many ways. One constant is that they will find ways to limit executive discretion and check on what people are doing, often to the point of essentially paralyzing programs or flexibility that may be needed. In other words, once trust breaks down, all sides will lose.

There is no need to rehash the arguments of the last seven years. Pointing to the future, you have the burden of rebuilding the social contract between the American people—including Congress and the courts—and the intelligence establishment. I believe you should do this in a way that allows you to continue to put offensive pressure on al Qaeda and its allies and affiliates around the world, while strengthening the foundation for addressing other kinds of transnational violence, such as the strange kind of internal war developing in Mexico.

Three priorities stand out:

1. Develop a sustainable approach to the treatment of captured terrorist suspects that is well understood at home and abroad.
 - Close Guantanamo, parole (as that term is used in the law of war) enemy combatants that have been incapacitated long enough, and keep others—including convicted war criminals—at a military facility in the United States.
 - Continue work (already well underway) with interested allies on developing coalition guidelines and state practice (not a new treaty) for use of force, renditions, questioning captives, trial, and detention.

- Authorize a presidential commission to establish the record of how detainees were treated in the past and should be treated in the future.
2. Develop a sustainable approach to the domestic side of the national intelligence mission that is understood and supported by a majority of the Congress.
 - In 2008 President Bush and Attorney General Mukasey issued new guidelines for domestic intelligence collection. These guidelines properly integrate domestic intelligence work into the national intelligence mission under the general guidance of the DNI and grant significant intelligence collection responsibilities to the FBI. You may wish to review these guidelines with care and make a deliberate decision about whether to renew, reinforce, or amend them.
 - You will also want to reevaluate the role of the FBI and the CIA inside the United States. The FBI has not yet established that it can play the part in domestic intelligence that Director Mueller and his colleagues have sought. Rather than establish a new agency, there may be ways to integrate the CIA's existing infrastructure for foreign intelligence work more effectively into the national mission.
 3. Conduct an early review of current covert action programs in close cooperation with the Departments of State and Defense.
 - The scale of covert action is large. Almost all scrutiny of covert action programs occurs when they are authorized. Although practically all other instruments of policy are regularly evaluated through dissemination of ongoing reports of what is being done, the nature of covert action closes off such scrutiny. This is especially ironic, since the CIA does not see itself as a policy agency, yet the policy agencies have little ongoing knowledge of how these instruments of policy are being wielded.
 - There is an existing annual or semi-annual review process; but, as a new president, you must be sure you understand what is being done in your name. This will help good programs by giving them early, firm reaffirmations of presidential support.

- State, especially through its ambassadors, should play its appropriate (and original) role as the policy steward for these instruments. In the past, it has tended to defer this responsibility to the White House—to you—but you and the NSC staff do not have the institutional capability to play this part adequately, nor should you.
- Current operations have illustrated the artificiality of the Title 10/Title 50 distinction in separating clandestine actions involving DOD and CIA personnel. You should encourage development of a “Title 60” approach that more effectively uses the institutional strengths of these institutions, without requiring one to develop surrogate versions of the other.

The net effect of these measures should be that by the end of your first year in office the American people will believe that you and congressional leaders have a firm understanding of what the intelligence establishment is doing worldwide and at home, that you have clarified well-understood lines of permissible conduct, and that personnel are clearly being trained accordingly.

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Part **2**

ASSESSING CAPABILITIES AND CAPACITIES AT
HOME AND ABROAD

CHAPTER 4

Defense Strategy & Budget in the Post-Bush Era

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Global Affairs John F. Kennedy School of Government,
Harvard University

CHAPTER 5

Counterterrorism and Homeland Security

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CHAPTER 6

A Decent Respect to the Opinions of Congress:

Putting the Executive-Legislative
Relationship Back on Track

Antony J. Blinken

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U.S. Senate Foreign Relations Committee

“As a global power with global interests and unique responsibilities, the United States must maintain the capability to defeat aggression in more than one theater at a time. But the new two-war strategy can no longer be based on two particular wars of a conventional sort, but on the widest range of possible plausible scenarios.”

— ASHTON B. CARTER

Defense Strategy & Budget in the Post-Bush Era

Ashton B. Carter

Co-Director, Preventive Defense Project & Chair, International & Global Affairs
John F. Kennedy School of Government, Harvard University

No American president in recent memory has left as unsettled a world and as many unresolved national security issues as George W. Bush left his successor in the Oval Office in January 2009. The new leadership of the Department of Defense, in particular, faces three categories of management challenges, each enormous and unprecedented. The first category includes massive ongoing operations in Iraq, Afghanistan, and against Islamist extremism, none of which will end entirely anytime soon. To these must be added runaway nuclear programs in North Korea and Iran, erratic or unstable governments in critical places like Russia and Pakistan, and still-unpredictable but near-certain new crises that will arise in Africa, the Middle East, and elsewhere.

Second, these immediate challenges will need to be met against the sad necessity to “reset” some of the traditional sources of American influence and effectiveness in the world. The United States will have to reset its global leadership by repairing frayed alliances and security partnerships. It will need to re-earn its reputation for thoughtful deliberation in how it conceives its strategic intentions. Even more troubling, it will need to re-earn its reputation for simple competence in executing these intentions. Both of these have been called into question in connection with Iraq. The new secretary of defense will also need to reset civil-military relations, which became strained under former Secretary of Defense Donald Rumsfeld but have already begun to be restored under his successor Robert Gates. In some quarters, the United States will even need to restore its honor, which has been compromised by excesses such as Abu Ghraib, Guantanamo, and waterboarding. The project to restore the U.S. to its rightful place in the world will take years, but a new administration will need to begin immediately.

But a third category of challenges for the next administration's national security leadership, less discussed in the froth of the presidential campaign but ultimately equally demanding for the next president and secretary of defense, concerns the management of investment in the U.S. national security future—budgets, programs, and the match, or, more accurately, the current mismatch between resources and strategy. This third category is the topic of this paper.¹

The Coming Defense Budget Crunch

The strategy-resources mismatch is of concern because of several factors that will impinge upon the defense budget, quickly and severely, early in the term of the next president:

- A likely leveling of the Defense Department's top line. The American people will certainly not be demanding a "peace dividend," because they will realize no comprehensive peace is at hand. But neither is there likely to be a continuation of the rapid upward trend that has put DOD's base budget authority thirty-six percent higher (in real terms) today than on 9/11, and eighty percent higher if supplemental funding is included.² The Bush administration projected a slow decline in real defense spending over the next five years, but will probably try to move some supplemental funding into the base budget before it leaves office.
- The very real possibility that supplemental funding (now about forty percent as large as the defense base budget itself) will be cut faster than the actual commitments in Iraq and Afghanistan can be safely curtailed. In theory, the supplementals cover the marginal cost of the wars and the baseline budget covers the ongoing costs of the military. After six years of war, however, the reality is much more complex. Expenditures that might appropriately have been requested even without the wars have been included in the supplementals for expediency. If the supplementals dry up, these programs—some of them new and innovative—will be forced to compete with the old program of record for survival.³
- The related possibility that ground force reset costs will be higher than currently forecasted.⁴

- A “bow wave” resulting from a failure to take account of cost growth in weapons systems and defense services, meaning that the actual expenditures needed to fund the forces and new weapons systems programmed will probably exceed those budgeted by a wide margin.
- The inexorable encroachment of health care and other personnel and current operating costs on the portion of the Pentagon’s budget that invests in future forces—procurement and research, development, test, and evaluation (RDT&E).⁵
- The government’s uncertain overall fiscal position, especially with the downturn in the economy—its willingness to tax, borrow, or make cuts elsewhere to fund DOD’s needs.
- Growing evidence of the need to improve acquisition practices, program management, and system engineering skills in both government and the defense industry.

Compounding these Defense Department issues are wider concerns of national security capability and management, where the U.S. edge in marshaling all elements of national power is not nearly as sharp as its military prowess. An edge of excellence outside of the Department of Defense must be created to match the edge our military forces possess. Secretary of Defense Gates has appropriately called for such a rebalancing of U.S. capabilities. Among the challenges are:

- The continuing need to build a better capacity to protect America and its friends from violent extremism and terrorism, which requires investment outside of the Defense Department as well as within: in intelligence, law enforcement, homeland security, foreign assistance, and diplomacy;
- The crippling inadequacy of the non-defense instruments of crisis intervention: civil reconstruction, political stabilization, and interagency coordination and command;
- Frayed alliances and security partnerships and a palpable diminution in both U.S. moral authority and ability to persuade, as revealed in extensive and consistent worldwide polling data; and

- A lack of willingness or capacity in many countries, including important allies, to share the burden with the United States by augmenting and complimenting its own efforts.

Needed: A Return to Strategy in the Pentagon

It is against this challenging budgetary background and widening understanding of the non-military capabilities needed for national security that the new American leadership must consider defense strategy for the future, which is the guide to investment. Strategic clarity—what kind of military does the United States need and why?—must make a return to the Pentagon after a period when ever-growing budgets and single-minded preoccupation with Iraq have caused it to fall out of practice.

The future is uncertain, to be sure. But while there might be talk about “known-unknowns” and “unknown-unknowns,” five future requirements are, in fact, pretty well known. They provide a sturdy basis for realistic planning and programming for Defense. The U.S. national security establishment, including especially DOD, will need to be able, in parallel, to (1) conduct irregular stability operations in difficult politico-military circumstances; (2) combat violent extremists, including radical Islamist terrorists; (3) hedge against an unlikely but possible downturn in U.S.-China relations; (4) prevent and protect against weapons of mass destruction (WMD) threats; and (5) continue to overmatch possible adversaries on the conventional battlefield.

Each of these missions requires investment in future defense forces. Each requires, in fact, very different types of investment. Since it is not easy to imagine a future world in which the need for any one of these five missions would disappear entirely, the Pentagon leadership in the post-Bush era must find a way to do them all, spreading available resources across them in a thoughtful investment portfolio.

It is also difficult to imagine having enough forces and dollars to do everything possible to accomplish each of the five missions in the portfolio. There will, accordingly, be some risk inherent in any investment plan to accomplish this multitasking strategy. The investment plan for Defense must therefore do what planners call “accept risk,” and it must allocate that risk within each of the five mission areas and among the different mission areas.

In recent years, the long-established processes in DOD to manage risk and set budgets have been undermined. The rapid increases in the budget have obviously been beneficial in one way—adequate funding for Defense—but in other ways they have corroded the processes and discipline that ensure that strategy and budgets align. There has also been excessive reliance on so-called “capabilities-based” planning, which can easily devolve into improving what the military has rather than asking what it needs.

The task of Defense leaders in the post-Bush era will be to explain the portfolio strategy and to win the support of Congress and the American people for the needed investments. This chapter describes the principles that should guide defense investments in the coming years for each of the five mission areas in the portfolio.

Conducting Irregular Stability Operations in Difficult Politico-Military Circumstances

Projected ongoing operations in Iraq (while probably diminishing), Afghanistan, and the Balkans and possible future operations in many locations (the Horn of Africa and Darfur among them) all point in different ways to this broad requirement for defense in the future. This complex of missions—collectively called “irregular warfare” in official DOD parlance, though this term is not universal—comprises stability operations, post-conflict reconstruction, peacekeeping, counterinsurgency, humanitarian intervention, and other related types of missions. There are important distinctions among these concepts and they need to be applied differently to each situation. But they result in a common Defense requirement—relatively large multipurpose ground forces capable of operating among civilian populations with strong self-protection and minimal harm to friendly civilians. Outside of Defense, this mission requires better U.S. civilian capabilities and interagency coordination; outside of the U.S. government it requires international burden-sharing.

Much as the United States would like to leave the field of irregular warfare behind and return to an era of traditional military-versus-military warfare, almost two decades of post-Cold War experience show that this complex of missions is here to stay.⁶ Defense must invest to keep and build its edge in irregular warfare. This will require an investment by Defense to:

- Change the shape and perhaps the size of the Army and Marine Corps to emphasize military specialties that are currently in high demand for irregular operations but in low supply. The principal strategic challenge for the Army is to decide how much to invest in such force elements and how much to invest in more traditional force-on-force land combat capabilities; and then how to combine both types of forces into a single overall Army (to oversimplify, should the Army commingle or separate the two elements?);⁷
- Continue to evolve the mission of the Army and Marine reserves from providing strategic backup for World War III, to adding value to active-duty ground forces in this mission area—selectively and, for the citizen-soldiers involved, predictably;

- Launch a comprehensive program of innovation in the technology and tactics of self-protection for U.S. forces compelled to operate with restraint in the midst of civilian populations containing hostile elements, frequently in congested urban settings. Threats such as improvised explosive devices (IEDs), explosively formed projectiles (EFPs), mortars, rocket-propelled grenades (RPGs), shoulder-fired anti-air missiles, and suicide bombers are relatively minor factors in conventional force-on-force warfare on the open battlefield, but they can be major factors in irregular warfare. The types of investment relevant to irregular warfare range from armored combat vehicles like the Mine Resistant Ambush Protected (MRAP) vehicle to body armor, non-lethal weapons, and unmanned aerial systems like Shadow and Predator;
- Create a larger capability within Defense for training foreign security forces. Even the most interventionist U.S. administration with the most sumptuous funding of this mission area could not hope to manage more than a handful of significant stability operations at one time. Most of the time and in most places, the United States will be counting on stable governments and their indigenous security forces to fight insurgencies, eradicate terrorist safe-havens, prevent genocide, and in other ways ensure a peaceful and decent world. Increasing the capability of other nations to ensure security is as important as increasing U.S. capabilities;
- Enlist the help of allies and partners. The United States should not bear the entire burden of irregular warfare operations where they are needed for international security; and
- Rebalance national security investment to build civilian capabilities. To accomplish this rebalancing, the new president should expand the scope of the Congressionally-mandated Quadrennial Defense Review, which covers only the Department of Defense, into a Quadrennial National Security Review encompassing all the agencies that play a role in national security.

Combating Violent Extremists, Including Radical Islamist Terrorists

No one can say how long it will take to defeat or contain radical Islamic extremists bent on terrorism. However, there are reasons to believe that combating terrorism will be an enduring feature of the national security landscape long after what the

Bush administration called the “Long War” against Islamic extremism is over. With the advance of technology, the destructive power available to even small groups of extremists is growing. At the same time, society is growing more interdependent and connected and thus more vulnerable to terror—physically and psychologically. These two fundamental trends are visible as far into the future as any of us can see. Whatever the lifetime of Islamic extremism, therefore, it will long remain the business of national security authorities to counter terrorism arising from other movements and groups. In this sense, the notion of a “Long War on Terror” is apt.

But for future Defense investment, this mission points in a somewhat different direction from stability operations. The critical tasks, first of all, fall outside Defense—in law enforcement, intelligence, homeland security, foreign assistance, and diplomacy. Within Defense, they emphasize some of the same special forces (direct action and civil affairs) and trainers of foreign security forces as irregular warfare.⁸ But a new and potentially significant development is DOD’s increasing willingness to assume a role in emergency response through its Northern Command (NORTHCOM). For the first several years after 9/11, Defense steered clear of involvement in homeland security, since Defense leaders were preoccupied with Iraq and concerned that homeland security funding would be subtracted from the defense budget. More recently, however, DOD has acknowledged its inevitable role in carrying out the DHS-drafted National Response Plan at least for catastrophic cases like a nuclear explosion in a U.S. city. The Pentagon has even gone so far as to assign forces to NORTHCOM for this purpose for the first time.

Hedging Prudently Against an Unlikely but Possible Downturn in U.S.–China Relations

China is undergoing a transformation unprecedented in history in both scale and scope. United States–China relations are overall positive, and the two nations have developed a mutual dependency that would make unbridled antagonism or armed conflict tantamount to mutual assured destruction, demolishing an economic relationship that is vital to both. It would also destabilize the Asia-Pacific region where, despite enduring animosities dating back to World War II and before, prosperity and political development have proceeded at an astonishing pace for decades—first in Japan and Taiwan, then in South Korea, and now in South and Southeast Asia, as well as in China itself. A U.S.–China Cold War would be wasteful for both militaries, which face other pressing and shared threats from terrorism, proliferation, and a host of regional and transnational problems. A hot war would involve a catastrophic clash between two of the planet’s largest

military machines and could possibly even escalate to nuclear conflict. For two governments to bring themselves to this point would be contrary to both their individual and common interests. The overwhelming evidence of recent trends suggests that the path of conflict is, indeed, highly unlikely.

Yet senseless conflicts have too often scarred history. Past experience suggests that as a matter of strategy an important question remains: Will China be a friend or foe of the United States twenty or thirty years hence? This question is sometimes wrongly posed as a matter of Chinese leaders' "true intentions." But the fact is that no one, including the current Chinese leaders themselves, knows where destiny will take China as a military power. China's military future will be determined by the attitudes of its younger generation, the policies of its future leaders, its internal development and stability, and the possibility of unforeseen crises with the United States—for example, over Taiwan. There is no convincing way for Chinese leaders to persuade Americans of their country's peaceful intentions decades into the future: These intentions are not a secret they are keeping from us; they are a mystery unknown to all.

In this strategic circumstance, the United States has no choice but to adopt a two-pronged policy.⁹ The most important prong is to engage China and encourage it to become a "responsible stakeholder" in the international community. But a second prong is to hedge against a downside scenario of competitive or aggressive behavior by China. Successive U.S. administrations have struggled to sustain public support for the needed two-pronged policy—a policy that at first glance can seem self-contradictory. But there is no reason for such a policy to be self-contradictory. Determination to engage should not get in the way of prudent hedging, but so also excessive hedging should not create a self-fulfilling prophecy whereby treating China as an enemy contributes to making it an enemy. And since today's Chinese military leaders also cannot know where destiny will carry the relationship, it follows that they, too, probably have a two-pronged strategy. The Chinese military will be preparing for the downside scenario, and their hedging will look to the United States like the leading indicator of the very competitive behavior against which the United States is hedging. And so hedging can beget more hedging in a dangerous spiral—hedging is contagious. The China hedge in U.S. strategy must therefore be a prudent hedge.

The dynamic of Sino-American mutual military hedging is most evident in the Taiwan Strait. U.S. policy is not to defend Taiwan no matter what, but it is U.S. policy (and law, according to the Taiwan Relations Act) to be prepared to defend Taiwan. China, for its part, refuses to renounce the use of force if Taiwan moves

too far towards independence. So the U.S. Pacific Command and the People's Liberation Army arm, train, plan, and exercise every day for the possibility of such a confrontation. Recent developments in cross-Strait relations, notably the thaw arising out of the election of President Ma Ying-jeou in Taiwan, make such a clash less and less likely. But no one has proposed an improvement to the overall policy status quo regarding Taiwan, and as long as that remains true, this small and localized, but very real, arms race seems fated to continue.

For the Department of Defense, a prudent China hedge creates an investment requirement very different from that of either irregular warfare or combating violent extremism. The China hedge emphasizes advanced maritime and aerospace forces rather than ground forces, and is therefore sometimes adduced as the rationale for large Navy and Air Force investments such as the Virginia-class attack submarine (SSN 774), the F-22 Raptor air superiority fighter, and the DDG 1000 destroyer. But a more specific focus of prudent hedging is to frustrate Chinese efforts in counter-air, counter-carrier, counter-space, and counter-information capabilities. Through such asymmetrical capabilities, China's military leaders hope to find some way to puncture the U.S. military's decisive dominance in a crisis or confrontation. These Chinese efforts are quite clear—reflected, for example, in the test of an anti-satellite interceptor in January 2007.¹⁰ U.S. investments in a prudent hedge should concentrate first and foremost on showing China and its neighbors that such efforts will not succeed in upsetting the overall balance in the Pacific region that has given it decades of peace and prosperity.

Preventing and Protecting Against WMD Threats

Weapons of mass destruction—that is, nuclear and biological weapons (chemical and radiological weapons' effects being much less dangerous and correspondingly more manageable)—in the hands of hostile state or non-state actors can jeopardize the way of life, if not the survival, of the United States. These weapons are therefore the highest-priority threat to U.S. national security. Overall U.S. government efforts must include prevention of the spread of dangerous weapons, protection from them if they do spread, deterrence to discourage their use, and effective emergency response to minimize damage if they are used.¹¹

Prevention is especially important for nuclear weapons, since they require unique materials—highly enriched uranium and plutonium—that are difficult to manufacture. Once these materials are obtained by governments or terrorists, however, the barriers to fabricating and delivering a weapon are much lower. The grave setbacks in prevention suffered by U.S. policy in recent years—allowing North

Korea to obtain a nuclear arsenal and failing to slow Iran's nuclear program—have made the nuclear threat today greater than it was just a few years ago. To these disastrous developments must be added instability in nuclear-armed Pakistan and the incomplete security of Russia's nuclear materials.

The Department of Defense plays a role in all phases of protection against a WMD attack. But, once again, it cannot accomplish the entire counter-WMD mission, which requires the contribution of other parts of government, by itself. And, once again, the investments DOD needs to make to play its role in this mission are different from those it needs to make for other missions, like stability operations and the China hedge. In the post-Bush era, the Department of Defense will need to take the following steps to make the department's contribution to protection from WMD:

- Fund and support the expansion (in scope and geographic application) of Cooperative Threat Reduction (“Nunn-Lugar”) prevention and related programs like the Global Threat Reduction Initiative, the Proliferation Security Initiative, and the Global Initiative to Combat Nuclear Terrorism.
- Expand the role and funding of the Defense Threat Reduction Agency (DTRA), which is DOD's hub and a government-wide center of excellence for countering WMD: Its capabilities not only support the war plans of the combatant commanders, but underlie many arms control, threat reduction, nonproliferation, counterproliferation, WMD counterterrorism, and WMD homeland security activities of the entire government. Astonishingly, DTRA's budget has remained flat at only \$3 billion since the 9/11 wake-up call, despite the clearly growing WMD dangers and the fact that DOD's budget as a whole has grown enormously in the same period.¹²
- Review the military requirements for, and attend to the appropriate size and quality of, the nuclear deterrent. Senior defense managers tend to ignore nuclear forces because they play no role in the urgent problems of Iraq, Afghanistan, and the War on Terror. Nor are nuclear forces a budgeting priority, since the entire nuclear posture only costs DOD about \$12 billion per year, or one-fortieth of the defense budget. This amount covers the triad of strategic nuclear forces (Trident submarines, Minuteman intercontinental ballistic missiles, and B-52/B-2 bombers when in the nuclear role); the small

remaining non-strategic force (shore-based submarine-launchable Tomahawk cruise missiles and nuclear gravity bombs in Europe, deliverable by dual-capable fighter aircraft); and their associated command and control. But the nuclear posture is obviously critical for deterrence, for the reassurance it provides to key allies, and for the role it plays in arms control and non-proliferation policy. Its quality is also of concern, as was demonstrated by the unauthorized flight of a B-52 bomber carrying nuclear weapons from Minot Air Force Base to Barksdale Air Force Base on August 30, 2007.¹³ Congress has mandated that the new administration conduct a Nuclear Posture Review in 2009. (The Department of Energy's nuclear weapons-related activities are also of concern. The activities cover warhead stockpile research, fabrication, and maintenance and cost about \$6.5 billion per year.)

- Fund the development and acquisition of a robust suite of non-nuclear counters to the threat or use of WMD against U.S. territory, forces, and allies. While the president will always have nuclear retaliation as a possible U.S. response to WMD use, no president would wish that to be his first and only option. Presidents deserve a wider range of alternatives. Non-nuclear alternatives include, first and foremost, use of conventional forces for devastating retaliation. But they extend to passive defenses like protective suits and vaccines against chemical and biological weapons. They also include ballistic missile defense, currently a \$9 billion per year program with policy-sensitive elements like the planned deployment of ground-based interceptors and radars in Poland and the Czech Republic. Yet another response category is “non-nuclear strategic strike”—submarine-launched or ground-launched ballistic or boost-glide missiles loaded with non-nuclear warheads capable of striking targets almost anywhere in the world in half an hour, an alternative with policy-sensitive elements that would need to be resolved.
- Formulate realistic responses to a situation in which terrorists obtain or detonate a nuclear weapon. DOD would only play a part of a broader government-wide response, but DOD's roles include developing nuclear detectors and forensics, stepping up to its inevitable role in cleanup, and, if appropriate, holding responsible the government from which terrorists obtained the nuclear weapon or fissile materials.

Continuing to Overmatch Possible Adversaries on the Conventional Battlefield

For much of the post-Cold War period, the single mission that had the most influence on the size of U.S. forces, and thus on the defense budget, was the requirement that the U.S. be able to conduct two major regional wars simultaneously. Planners had wars against Kim Jong-il's North Korea and Saddam Hussein's Iraq in mind. The rationale was that if the U.S. military was entirely consumed by fighting North Korea, for example, Saddam Hussein might be emboldened to choose that moment to launch his own war. The two-simultaneous-wars construct resulted in an analytically derived number of units of ground, air, and naval forces required in the scenarios, and thus in the defense budget. In reality, the two-war requirement never exactly matched available budgets, and the construct was continually amended by both the Clinton and George W. Bush Defense Department leadership (by conceiving the two wars as overlapping but not strictly simultaneous and by ignoring or trimming the need for postwar occupation and stabilization). Nevertheless, it had a powerful influence on where DOD spent its money.

Each of the two-war scenarios underpinning defense planning through the first post-Cold War decade has changed dramatically.

On the Korean peninsula, South Korea's ground forces have strengthened and North Korea's have weakened, to the point where a large infusion of U.S. ground forces to halt and reverse a North Korean invasion would not be needed. Today, naval and air forces and information systems would comprise the distinctive and decisive U.S. contribution to defeating North Korea's armed forces. The unfortunate aftermath of the invasion of Iraq makes clear that planning for territorial wars should take into account the need for ground forces in the post-conflict period for stability. But in a war on the Korean peninsula, South Korea would probably insist that its ground troops be the mainstay of order in the North during the reunification process. The U.S. role in a war on the Korean peninsula would therefore be limited to contributing airpower, naval power, and information during the combat phase. The capabilities needed to do this have much in common with those needed for the China hedge.

The second of the two major conventional war pillars of the 1990s planning construct—Saddam Hussein's Iraq—is gone. Its replacement might seem to be Iran. But Iran is more likely to challenge the United States with tactics other than territorial invasion of the kind Saddam Hussein mounted against Kuwait in 1990: irregular warfare and terrorism through Hezbollah and certain Palestinian factions, selective efforts to puncture U.S. overall dominance (e.g., concealment and deception against U.S. attack from the air, jamming of GPS), and nuclear weapons aboard long-range

missiles. The military counter to Iran therefore looks more like the previous four missions—irregular warfare, countering violent extremists, hedging against China, and countering WMD—than like conventional force-on-force warfare.

In view of these fundamental changes in the threats motivating the traditional two-war construct, there is a need for a new construct in this mission area to size it in the context of DOD's overall force and budget planning and investment. As a global power with global interests and unique responsibilities, the United States must maintain the capability to defeat aggression in more than one theater at a time. But the new two-war strategy can no longer be based on two particular wars of a conventional sort, but on the widest range of possible plausible scenarios.

Conclusion

Given that Defense must be prepared to accomplish all five missions and that resources will be limited, devising the smartest and most parsimonious approach to accomplishing each of them is essential. Obviously, investments that contribute to more than one of the five mission areas should enjoy extra favor. At a minimum, everything the Pentagon buys should make a vital contribution to at least one of these missions.

Even under the best of circumstances, the U.S. Department of Defense in the post-Bush era will inherit a defense program that has not been aligned with the budget; a strategy not matched to resources; a need to restore and reset American influence and effectiveness on the world stage; and threats in Iraq, Afghanistan, North Korea, and Iran that have not been managed or resolved. This daunting inheritance can and will be overcome, but it will take years of strong leadership.

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¹ This chapter is derived in part from a paper the author presented to the Naval War College on November 14, 2007, entitled "Defense Management Challenges in the Post-Bush Era," in *Defense Strategy and Forces: Setting Future Directions*, ed. Richmond M. Lloyd (Newport, RI: Naval War College, February 2008), 23-30, available at <http://www.nwc.navy.mil/academics/courses/nsdm/rugerpapers.aspx> (accessed 30 December 2008). The author is grateful to Gretchen Bartlett, Evan Maher, Andrew O'Connell, and Kent Park for their research assistance.

² Congress seems likely to approve essentially the administration's entire request for FY2009, which will result in a total DOD base budget of \$518 billion. The FY2001 defense budget was \$381 billion (in 2009 dollars). In FY2008, the DOD base budget was \$493 billion, but supplementals added another \$194 billion to DOD. The administration has requested only \$70 billion in supplemental funding so far for FY2009, leaving it to the next administration to request supplemental funding for the rest of the fiscal year. Secretary of Defense Gates has estimated that another \$100 billion in supplemental funding will be needed for the balance of FY2009. See Pat Towell and Stephen Daggett, *Defense: 2009 Authorization and Appropriations* (Congressional Research Service: updated 18 June 2008), available at <http://www.fas.org/sgp/crs/natsec/RL34473.pdf> (accessed 30 December 2008).

³ A few examples: The entire Joint IED Defeat Organization; Arabic and Farsi language training; and parts of the Army's planned transition to a Brigade Combat Team structure. See Peter R. Orszag, *Analysis of the Growth in Funding for Operations in Iraq, Afghanistan, and Elsewhere in the War on Terrorism* (Congressional Budget Office, 11 February 08), available at http://www.cbo.gov/ftpdocs/89xx/doc8971/02-11-WarCosts_Letter.pdf (accessed 30 December 2008). History provides little guide here, since the nation's other long wars—Korea and Vietnam—were almost entirely funded out of the base DOD budget, not supplemental appropriations.

- ⁴ In addition to the tendency simply to underestimate future reset costs, there is a conceptual problem: After six years of war it makes no sense to restore forces to their pre-war state. So “reset” becomes “modernization” as a practical matter, and modernized forces cost more than the older forces they replace.
- ⁵ An American in uniform costs forty percent more today than before 9/11, when adjusted for inflation. Leaving aside entirely the extra costs of war, the baseline cost of operating each unit of the military (meaning their training, repairs of equipment, base operations, and health care) has been growing at a rate of a few percentage points above inflation for years.
- ⁶ James F. Dobbins, *Nation-Building and Counterinsurgency after Iraq: A Century Foundation Report* (New York, NY: Century Foundation, Inc., 2008), available at <http://www.tcf.org/publications/internationalaffairs/dobbinscopy.pdf> (accessed 30 December 2008).
- ⁷ President Bush and both presidential candidates support increasing the size of the active Army by 65,000 and the Marine Corps by 27,000 by 2012 at a cost of \$110 billion (and \$14 billion each year thereafter to sustain the new forces). See Michèle A. Flournoy and Tammy S. Schultz, *Shaping U.S. Ground Forces for the Future: Getting Expansion Right* (Washington, DC: Center for a New American Security, June 2007), available at <http://www.cnas.org/en/cms/?376> (accessed 30 December 2008) and Andrew Feickert, *Does the Army Need a Full-Spectrum Force or Specialized Units? Background and Issues for Congress* (Washington, DC: Congressional Research Service, 18 January 2008), available at <http://www.fas.org/sgp/crs/natsec/RL34333.pdf> (accessed 30 December 2008).
- ⁸ An increase of 13,000 special operations forces is planned.
- ⁹ For a list of “dos” and “don’ts” of prudent hedging, see Ashton B. Carter and William J. Perry, “China’s Rise in American Military Strategy” in *China’s March on the 21st Century: A Report of the Aspen Strategy Group*, (Washington, DC: The Aspen Institute, 2007), 101-117, available at <http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/CMTCFINAL052307.pdf> (accessed 30 December 2008) and Ashton B. Carter and William J. Perry, “China on the March,” *National Interest*, no. 88, (March–April 2007): pp. 16–22, available at http://www.belfercenter.org/files/carterperry_nationalinterest_marapr2007.pdf (accessed 30 December 2008).
- ¹⁰ See William J. Broad and David E. Sanger, “China Tests Anti-Satellite Weapon, Unnerving U.S.,” *New York Times*, (18 January 2007), available at <http://www.nytimes.com/2007/01/18/world/asia/18cnd-china.html?ex=1326776400&en=3f5fb4a065572bbb&ei=5088&partner=rssnyt&emc=rs> (accessed 30 December 2008).
- ¹¹ See Ashton B. Carter, Michael M. May, and William J. Perry, “The Day After: Action Following a Nuclear Blast in a U.S. City,” *The Washington Quarterly*, 30, no. 4, (Autumn 2007): 19-32, available at http://www.twq.com/07autumn/docs/07autumn_cmp.pdf (accessed 30 December 2008).
- ¹² See Ashton B. Carter and Robert G. Joseph, et al. *Review Panel on Future Directions for Defense Threat Reduction Agency Missions and Capabilities to Combat Weapons of Mass Destruction* (March 2008), available at: http://belfercenter.ksg.harvard.edu/publication/18307/review_panel_on_future_directions_for_defense_threat_reduction_agency_missions_and_capabilities_to_combat_weapons_of_mass_destruction.html?breadcrumb=%2Fproject%2F2%2Fpreventive_defense_project%3Fpage_id%3D55 (accessed 30 December 2008).
- ¹³ See “Flight of Nuclear Warheads Over U.S. Is Under Inquiry,” *New York Times*, (6 September 2007), available at http://www.nytimes.com/2007/09/06/us/06bomber.html?_r=1&scp=3&sq=Minot%20AFB%20and%20Barksdale%20AFB&st=cse&oref=slogin (accessed 30 December 2008).

“The continued existence of terrorist safe havens has more to do with regional politics than the shortcomings of the key instruments of American power.”

— RICHARD A. FALKENRATH

Counterterrorism and Homeland Security

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President Barack Obama and his administration need to be prepared for the possibility of another terrorist attack against U.S. interests or the homeland, and should anticipate little if any grace period in the event of a major incident or attack that reveals the limitations of U.S. preparedness or response. The terrorist threat to the American homeland is lower than it was on September 10, 2001, but an attack can materialize at any time, in any place, without warning.

For most of those entering the executive branch for the first time, or reentering for the first time since 9/11, the key institutions, their personnel, the operational practices, and their legal underpinnings will be largely unfamiliar. (See Appendix for a summary of new counterterrorism-related laws and major court cases that have emerged since 9/11.) There is no “official history” that the new administration can turn to, and what institutional memory exists is specific to each institution: it does not cut across the entire government. Many of the issues are fearsomely complex, so at least initially there will be an unprecedented knowledge gap between the new political appointees and the civil servants, military officers, government lawyers, law enforcement agents, and intelligence officials who run the programs that matter.

A comprehensive assessment of the institutions and instruments of U.S. counterterrorism and homeland security policy is beyond the scope of this paper. A great deal has been achieved in the last seven years, and there are many strengths in the counterterrorism and homeland security apparatus, but this paper will focus on its six key problem areas:

1. Terrorist safe havens;
2. Detention, interrogation, and prosecution;
3. Domestic intelligence;
4. Border security and terrorist travel;

5. Emergency management; and
6. Interagency coordination

These are not the only problems of U.S. counterterrorism and homeland security, but they are the most serious.

Terrorist Safe Havens

When President Clinton left office, al Qaeda enjoyed a sanctuary in Afghanistan. Despite the seven-year “war on terror,” al Qaeda still has a safe haven, now in the lawless northwest frontier of Pakistan, a nuclear-weapons state.¹

Pakistan is, of course, not the only de facto terrorist sanctuary. In Iraq, al Qaeda and its immediate affiliates have suffered significant losses of late, but others survive there, in some cases by helping maintain what stability that country has. Yemen continues to shelter the bombers of the USS *Cole*, and it is a base for other terrorists. Iran has a handful of senior al Qaeda members under “house arrest,” harbors many more, permits terrorists to traverse its territory to and from the Afghan-Pakistan border region, and sponsors Hezbollah as well as militia groups in Iraq. Saudi Arabia, despite its aggressive internal counterterrorism program, takes a more reticent approach against Saudi citizens who support or engage in external terrorism. Syria, in addition to supporting Hezbollah and interfering in Lebanon, has allowed itself to become the main conduit for foreign Sunni fighters going into Iraq and a quasi-sanctuary for al Qaeda. The Palestinian Authority has a terrorist organization in its government (Hamas) and harbors many others. Somalia is a failed state with al Qaeda in its midst.

The situation in northwest Pakistan is particularly grave. The problem is not just that the architects of 9/11 continue to live there, or that they and their followers continue to plot attacks against the U.S. homeland and its allies. It is also that the continued presence of al Qaeda in Pakistan has the potential to trigger great instability in South Asia and the Muslim world. If there is another al Qaeda attack against the U.S. homeland, it is likely that the roots of the plot will trace back to Pakistan, just as they did for the London subway bombing of July 2005, the recent attacks in Mumbai, and many other post-9/11 plots. The U.S. president would face intense domestic pressure to respond to such an attack forcefully, with or without the concurrence of the Pakistani government, which has failed to deal with the problem for over seven years. An escalation of U.S. unilateral operations inside Pakistan, particularly one involving the use of ground forces, has the potential to further destabilize a weak, but strategically vital country.

The continued existence of terrorist safe havens has more to do with regional politics than the shortcomings of the key instruments of American power. Nonetheless, President Obama needs at least the following:

- An intelligence policy that not only permits, but also encourages and requires clandestine collection against terrorists inside the most important terrorist safe havens, including those allied or “friendly” to the United States, along with the resources needed to carry out such collection;
- Effective, well-managed liaison relationships with the security services in and around terrorist safe havens;
- The maintenance of the U.S. capacity for precise lethal air strikes against specific terrorist targets;
- A use-of-force policy regarding counterterrorist air strikes and ground operations that allows for very fast decision-making and tolerates substantial risk;
- The capacity to quickly and secretly take custody of individual terrorists anywhere in the world, detain and interrogate them, and transfer them to other jurisdictions if needed;
- A diplomatic strategy for each of the safe havens that attaches real priority to counterterrorism; and
- A viable military plan to unilaterally eliminate the al Qaeda sanctuary in Pakistan in extremis.

Detention, Interrogation, and Prosecution

When France endured a wave of Algerian terrorism in the mid-1980s, it responded by creating a special system of counterterrorist investigation and prosecution. The French system, which is controlled by a small number of highly specialized but politically independent prosecuting magistrates and judges, readily incorporates even the most sensitive foreign intelligence into a legitimate, domestic criminal-justice process.

The United States after 9/11 went in a different direction. Instead of adapting the existing justice system to the new challenge, the Bush administration elected to rely on many approaches to detention, interrogation, and prosecution that were rooted in the president’s constitutional commander in chief authority. The Bush administration did not seriously consider any significant reform of the ability of the U.S. criminal justice system to handle an individual like Khalid Sheikh Mohammad, who was captured in a foreign country, secretly transferred into U.S. custody, made to reveal information about then-current plots against the United

States and its allies, detained for several years without charges being brought against him and without access to any outsiders, including counsel, and ultimately charged with war crimes in a military commission based on evidence gleaned from his own confessions (some of which were coerced) and intelligence collected by highly sensitive covert means.

Today, the handling of Khalid Sheikh Mohammad, others currently in custody, and those who may be apprehended in the future is one of the most pressing practical problems in U.S. counterterrorism policy. The issues are complex, entangled in multiple cases decided by the U.S. Supreme Court and the lower federal courts, and diplomatically sensitive.

With respect to the terrorists currently detained as enemy combatants in Guantanamo (and perhaps elsewhere), the Obama administration must recognize that the Supreme Court in *Boumediene v. Bush* dealt a blow to the approach of the Bush administration and the Military Commissions Act of 2006, which established a military process as the primary focus of detention decisions. Now, and for the foreseeable future, the federal courts exercising habeas corpus jurisdiction will review the decisions of the military with respect to the enemy combatant status of the individuals at Guantanamo and the government's power to continue to hold them. The Obama administration will need to decide whether to attempt, as the Bush administration did, to settle certain individual cases with a trial and verdict before a military commission; and, if so, how to do that. It will also have to decide how it intends to treat those whom it does not intend to charge with war crimes before a military commission. These decisions, which impact our most fundamental conceptions of liberty and security, are enormously complex and difficult.

One option is to imprison enemy combatants "without charge or trial until hostilities end,"² as permitted by the laws of war. Only when the president decides that the hostilities have ended do the detainees need to be released.³ This option, which essentially defers the hard decisions to the future, would now have to occur under the close supervision of the federal courts, which may force the release of at least some individuals former Bush administration officials wish to continue detaining; it would also entail diplomatic and ethical trouble.

If, however, the Obama administration decides to try the current detainees, its main options are: (1) to continue the military tribunal process, perhaps with a revised statutory basis and procedures, while contesting the detainees' various motions and suits in federal court; and (2) to shut the military tribunals down and indict the detainees on federal criminal charges, perhaps under a new statutory framework, the constitutionality of which would of course be contested by the

detainees.⁴ Neither option is good, and both would take years to play out. *Boumediene* has essentially ensured that before a final verdict against any of the detainees is rendered by the military commissions or a federal court, the matter will return to the Supreme Court, probably more than once.

The Obama administration will also need a policy on how to handle new, high-level terrorist detainees. This policy should have both a short- and a long-term dimension. In the short term, the Obama administration should have some idea of what it will do if it happens to gain custody of a foreign person suspected of possessing information about current terrorist plots against the U.S. homeland or U.S. interests abroad. Will the person be interrogated or not; and if so, by whom and according to what rules? And where will he be physically held? The most expedient course of action is to continue the current practice of leaving (or placing) the person in the custody of a foreign government and then to receive the results of any interrogation through intelligence liaison channels. While it would be unwise for any president to rule out such methods for handling new detainees when necessary, a better approach would be to expect and allow U.S. intelligence officers to secretly and temporarily take custody of the detainees and to interrogate them in a manner that adheres to the standards of the U.S. Army Field Manual on Interrogation, except in extraordinary circumstances in which any deviations from the Field Manual would have to be specifically and personally approved by the president.⁵

Over the long term, however, the Obama administration should encourage Congress to enact fundamental reforms to adapt the domestic criminal justice system to future terrorist challenges. The United States has powerful interests in bringing terrorists to justice, upholding America's global reputation as a defender of liberty, protecting intelligence sources and methods, and interrogating terrorists with knowledge of ongoing plots. The Bush administration failed to reconcile these competing interests and its efforts were, in certain respects, counterproductive; but the task should not be insurmountable for the American system of governance. One idea is for "Congress to establish a comprehensive system of preventive detention that is overseen by a national security court composed of federal judges with life tenure."⁶ Preventive detention is, however, essentially a stop-gap measure; a more ambitious goal would be to establish, as France and other democracies have done, a special, independent court that could receive, consider, and protect intelligence on detained terrorists and impose sentences upon them based on this information.

Domestic Intelligence

In the United States today there is no domestic intelligence program, at least not as intelligence is understood in the foreign context, in which all manner of collection may proceed at the discretion of the collector. Instead, U.S. law enforcement agencies, principally the FBI, investigate terrorist activity using a variety of investigative instruments and techniques, some of which are extremely powerful and resemble the intelligence-collection methods employed abroad. Unlike foreign-intelligence collection, however, domestic collection requires unique approval from one or more specific officials according to standards prescribed in internal agency procedures, the attorney general's guidelines, and common or statutory law. The result is a system that is capable of being very effective in dealing with high-priority terrorism cases that capture the attention of senior officials and that clearly meet the various predication standards for intrusive collection. But the system is less effective at detecting terrorist agitation, nascent plots, or real plots that fail to offer up the probable cause needed for intrusive forms of domestic intelligence collection.

The various controversies in Congress over the Patriot Act and FISA modernization give the impression that the restrictions on domestic intelligence gathering are principally statutory in nature. In fact, except in a few specific areas (mainly electronic surveillance), the U.S. domestic intelligence program is held back mainly by the strictures not of law, but of policy. The FBI's human intelligence collection inside the United States, for example, is controlled almost entirely by the attorney general's guidelines and the FBI's internal rulebooks that interpret those guidelines. Furthermore, the dominant figures in the daily decision-making about the most powerful forms of domestic intelligence collection (FISA-authorized electronic surveillance) are not the FBI officials who bear principal responsibility for preventing terrorist attacks and not even the judges who sit on the FISA court, but the Department of Justice lawyers who are the intermediaries to the FISA court and who maintain the domestic intelligence canon. These arcane rules began as a response to the Church and Pike Committees' investigations in the mid-1970s and then calcified in the years following, ever more divorcing domestic intelligence responsibility from domestic intelligence authority. It is noteworthy that after 9/11 President Bush elected to authorize—secretly and in contravention of a federal statute—certain types of electronic surveillance without warrants from the FISA court, but did not demand swift, substantive reform in the hidebound domestic intelligence procedures that were entirely within the Bush administration's control.

Today, the current FBI leadership is working to improve its performance in domestic intelligence and the attorney general's guidelines have been modestly updated, but these incremental efforts move against a largely hostile tide. At the moment, there is little political interest in expanding the federal government's domestic intelligence powers. Indeed, in the absence of a successful attack that exploits the deficiencies of the U.S. domestic intelligence system, it is basically impossible to demonstrate that the system is, in fact, deficient.⁷ To the extent that the question is publicly discussed at all, it is usually formulated as: Should the United States have an MI-5? MI-5 is the United Kingdom's internal security agency that has broad intelligence-gathering powers, usually requiring no more than the quiet approval of the home secretary, but no power of arrest. After 9/11, the Bush administration never seriously considered establishing a domestic intelligence agency. The 9/11 Commission reportedly considered the idea of recommending a separate domestic intelligence agency, but, in the end, rejected it as well.

The issue of the proper organizational form for U.S. domestic intelligence is really a second-order question. The first-order question is: What rules do we wish to govern the collection, retention, dissemination, and utilization of information about U.S. persons who may have some nexus to terrorism? If one believes that these rules should not be significantly different from those currently in place, or that they should be even stricter, then it is hard to justify a major reorganization of the government.

My personal opinion is that the country will recognize the shortcomings of its domestic security apparatus only in the aftermath of a major attack against the homeland with a significant, undetected domestic dimension. In such an event, the need for a wholesale modernization of the administrative rules and statutes that currently govern domestic intelligence should become compelling. If these rules and statutes are significantly modernized, a new agency, reporting to the DNI and built on the basis of the FBI's National Security Division and the CIA's National Resources Division, would be warranted. If there is no major attack, the Obama administration should make the best of its limited options as follows:

- Support the FBI's ongoing internal efforts to improve its domestic intelligence capabilities; recruit, train, and retain qualified investigators, analysts, human-source handlers, and senior managers; and modernize its information systems;
- Empanel FISA judges in each of the eleven federal judicial circuits that currently lack such judges and permit FBI field offices to apply for electronic

surveillance authority directly from the nearest FISA panel without intermediation from Washington, D.C.;

- Support the unrestricted, independent analysis of all-source counterterrorism data by the National Counterterrorism Center to include U.S. persons suspected of terrorist affiliation, collection gaps, and other operational deficiencies; and
- Enact policies and/or seek new legislation to ensure that private entities, particularly telecommunications companies, have incentive to cooperate with properly authorized intelligence collection.

Border Security

There is no single explanation for why there has been no terrorist attack against the United States since 9/11, but improvements in U.S. border security have clearly been a major contributing factor. Prior to 9/11, the dominant objective of U.S. border policy was to facilitate lawful entry into the country. After it became clear that all nineteen hijackers entered the country lawfully with virtually no scrutiny from consular or immigration officials, U.S. border policy was turned on its head. The overriding objective of U.S. border security became the exclusion of potential terrorists from U.S. territory and control of the border was comprehensively vested in a single cabinet officer responsible for homeland security.

All available evidence suggests that this changed approach to border security is working. We know from numerous sources that al Qaeda and its affiliates have struggled to find ways to penetrate the U.S. border and have, to some extent, shifted their operational focus to Europe, Iraq, and elsewhere as a result.

At the same time, it is clear that U.S. border policy priorities have shifted over the last three years. Today, new financial investment and high-level political attention is directed not primarily to the systems that specifically target terrorist travel, but instead to the capabilities needed to slow illegal economic migration from Latin America. President Bush's FY08 and FY09 budgets, for example, proposed adding more than \$3 billion to hire more border patrol agents and to build detention and removal facilities in the southwest, as well as more than \$1 billion for a new fence and sensor system on the Mexican border, known as the "Secure Border Initiative." By contrast, these same budgets proposed adding less than \$200 million to begin the upgrades needed to biometrically screen foreign visitors requesting entry to the United States through the collection of 10-fingerprint capture, which is by far the most important innovation from a counterterrorism perspective.

President Obama should resist the temptation to think that border security does not require the setting of priorities. The enhancements needed to catch terrorists trying to infiltrate the country are not the same as those needed to block illegal economic migration and apprehend illegal aliens already in the country. There is of course some overlap, but far less than is commonly assumed. This question of priorities is fundamentally a political decision, but for a counterterrorism official the answer is self-evident.

There remain many significant opportunities to more effectively target terrorist travel. All countries control their borders, either singly or collectively (viz. the Schengen countries), and the technological sophistication of these control systems is steadily increasing. This network of computerized border control systems should be thought of as an essential instrument in the pursuit of terrorists worldwide. The Obama administration, therefore, should intensify the nascent efforts of the Bush administration to:

- Promote the worldwide adoption of interoperable, fraud-resistant travel documents (mainly passports and visas) with standardized photographic, fingerprint, and other biometric identifiers;
- Promote the worldwide deployment of biometrically-enabled visa issuance and border control systems;
- Negotiate and implement international data-sharing agreements related to lost and stolen passports and other identifying documents, visa applications, approvals and denials, travel records, and terrorist watchlists; and
- Negotiate and implement international agreements that allow real-time, cross-border electronic querying of terrorist watchlists at points of visa application, embarkation, and entry, starting with Canada.

These initiatives may seem esoteric and technical but they deserve no less attention—or money—than, for example, the unmanned aerial vehicles that hunt for terrorists in Iraq and northwest Pakistan. From the terrorist's point of view, an intelligent border is at least as dangerous as an armed Predator drone.

Emergency Management

The vast destruction and human suffering caused by Hurricane Katrina put emergency management on the national agenda as never before. The subject is, however, shaded by significant misconceptions, the most serious of which have to do with the real role of the federal government in managing domestic contingencies. In

the current U.S. emergency management system, authority always lies with state and local officials. The president almost never “takes charge” in a domestic crisis; and even if he attempted to, he would find his government ill-equipped for the tasks at hand. In emergency management, the federal government is always in a support role.

Hurricane Katrina represented a failure of all layers of government, but true opprobrium has been reserved for the federal government. There are many reasons for this—the fecklessness of the FEMA director, the image of the president looking down on New Orleans from Air Force One, a national disinclination to blame the victims of catastrophe—but chief among them is the sense that tangible federal assistance, including soldiers to maintain law and order, arrived in New Orleans far too late. Here compassion for the victims collides with the long-standing realities of the U.S. emergency management system. If the standard for success in a domestic disaster is a prompt, massive operational response by federal agencies in the absence of a timely gubernatorial request, then failure is foreordained by the system itself.

This is not to say that the U.S. emergency management system cannot be improved, only that any such initiative should be grounded in a clear understanding of how the system actually works. State and local agencies provide the preponderance of expertise, people, and equipment used to manage domestic contingencies, so if the federal government wants to improve U.S. emergency management capabilities, it should improve information-sharing and invest in enhanced state and local capabilities. These capability-building programs (typically grants) are very poorly managed and, making matters worse, most state and local governments are more interested in off-setting their preexisting costs than in building additional capabilities used only in extreme events.

At the federal level, the bureaucratic location of FEMA, which was incorporated into the Department of Homeland Security in 2003, has become a key issue. FEMA’s main roles since its establishment in 1979 have been to reimburse states for certain costs they incur in the aftermath of presidentially-declared disasters and to act as a clearinghouse for gubernatorial requests for operational assistance from other federal agencies (usually not FEMA itself) in such disasters. Over the years, FEMA has accumulated a few other responsibilities, such as certain planning and training functions, grant-making, and voluntary hazard mitigation, but it has never been a rapid-response agency, has never had significant operational capability of its own, and has always had a reactive orientation.

The easiest way to be seen as “doing something” about the limitations of U.S. emergency management capabilities is to make FEMA once again an independent agency. This would be a serious mistake. None of the many governmental failures

in the response to Hurricane Katrina, or any other major disaster for that matter, is attributable to FEMA's bureaucratic subordination to the secretary of Homeland Security; indeed, there is an argument to be made that the federal government's response to Hurricane Katrina would have been even worse had FEMA stood alone. Removing FEMA from DHS would, in and of itself, do nothing to improve emergency management in the United States, but would exacerbate existing emergency management problems and perhaps even create new ones. Aside from the distraction of yet another government reorganization, an independent FEMA would lead to a bifurcated emergency response system, where one set of plans and relationships governs certain types of natural disasters, while another governs terrorist contingencies; would compound the already grave problem of how to prepare for major public health emergencies (e.g., pandemics, smallpox, radioactive fallout); and would further muddle and stovepipe the federal government's relationships with state and local authorities.

Instead of tinkering with the organization of the government, the Obama administration should concentrate its energies on the substance of the emergency management problems we face. The most significant of these is that federal responsibility for emergency management is not aligned with authority. Under current law and executive order, the secretary of Homeland Security is "the principal federal official for domestic incident management." Thus she has broad responsibility. Her authority, however, is limited to her own department; with respect to all other federal departments and agencies, the secretary is only a coordinator. All significant emergency management operations are interagency in character, so no official beneath the president has authority over the totality of the federal response. This circumstance has contributed to dysfunctional federal operations in the field and leads to unrealistic, watered-down contingency plans whose main virtue is that they have survived the interagency clearance process. The president should remedy this problem by issuing an executive order that makes the secretary of Homeland Security more than just a coordinator within the federal government and by conducting himself in a manner that confers to the secretary substantial cross-departmental authority in this area.

There are also a range of very particular problems—the management of large-scale public health emergencies (e.g., pandemic, smallpox, radioactive fallout); the management of emergencies that involve large-scale criminality (e.g., terrorism, riots); the availability and use of military units in domestic contingencies; the use of federal resources in advance of or in the absence of a gubernatorial request; dealing with governors that do not act sensibly or decisively; etc.—that go well

beyond the scope of this paper, but that deserve careful and sustained attention by the Obama administration.

Interagency Coordination

The Bush administration had two nominally coequal officials in the White House: the assistant to the president for national security affairs, who headed the substantial NSC staff, and the assistant to the president for homeland security and counterterrorism, who had a deputy and a small staff that concerned itself mainly with domestic issues. Both chaired interagency meetings of variable configuration and advised the president when he wanted their advice. There was also, on the NSC staff, a deputy national security advisor for combating terrorism, who on paper reported to both senior officials and whose duties included operations that bridged the foreign/domestic divide. The span of responsibilities of the national security advisor greatly exceeded that of the homeland security/counterterrorism advisor.

There is no one right way to structure the interagency process and, even if there were, it would not guarantee success. One key issue for the Obama administration to consider is whether it aspires to institute major reforms or changes in the area of counterterrorism and homeland security. Does the president have an agenda in this area? If so, a strong expert and dedicated official in the uppermost reaches of the White House staff is called for—someone who has regular and easy access to the president and to whom the president is prepared to delegate substantial authority. This person should be a true principal, with an office in the West Wing, a staff, unfettered access to all terrorism-related intelligence, substantive involvement in day-to-day counterterrorism decision-making, control over the policymaking process, including matters pertaining to the Defense Department and intelligence community, and strong influence over the relevant portions of the president's annual budget and the administration's dealings with Congress.

If, on the other hand, the Obama administration has no major positive agenda in the area of counterterrorism and homeland security, or its reform ideas are confined to single agencies, then there is no real need for such a powerful and focused member of the White House staff. Two deputies under the national security advisor will suffice: one for counterterrorism and one for homeland security, each chairing sub-principal interagency meetings and troubleshooting as needed. The workload of the national security advisor under this scenario will be even higher, since he or she will be required to deal with the principals, the president, and Congress more extensively on important, but predominantly domestic matters.⁸ The heads of the departments of agencies will also have more authority and autonomy.

Conclusion

If the presidential campaign was any indication, counterterrorism and homeland security do not feature prominently on President Obama's agenda (nor did they with Senator John McCain). This was also true of Bill Clinton's campaign in 1992 and George W. Bush's in 2000. In both cases, however, terrorism thrust itself forward early in the administration as an issue that had to be grappled with at the highest level and with utmost seriousness. The same will likely be true for the newly inaugurated President Obama, and he would do well to be better prepared than his two predecessors.

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- ¹ According to Director of National Intelligence Mike McConnell, al Qaeda “has been able to retain a safehaven in Pakistan’s Federally Administered Tribal Area (FATA) that provides the organization many of the advantages once derived from its base across the border in Afghanistan, albeit on a smaller and less secure scale.” J. Michael McConnell, “Annual Threat Assessment of the Intelligence Community for the House Permanent Select Committee on Intelligence” (7 February 2008), 5.
- ² Jack Goldsmith and Eric A. Posner, “A Better Way on Detainees,” *Washington Post*, (4 August 2006): A17.
- ³ Another option for some of the detainees may be to transfer them to the jurisdiction of another country, which has a range of outcomes from the detainees’ freedom to their execution.
- ⁴ A third possibility would be to try the detainees in an international court, but this has no realistic prospect.
- ⁵ An interrogation proposal along these lines appears in Philip B. Heymann and Juliette N. Kayyem, *Protecting Liberty in an Age of Terror* (Cambridge, MA: MIT University Press, 2005).
- ⁶ Jack L. Goldsmith and Neal Katyal, “The Terrorists’ Court,” *The New York Times*, (11 July 2007).
- ⁷ A few authoritative studies have noted the problems. The 9/11 Commission noted in mid-2004 that it had “found gaps between some of the announced [FBI] reforms and the reality in the field.” In mid-2005, the Commission on the Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction (the Silverman-Robb Commission) highlighted a range of intelligence functions “in which the FBI has made significant but, in our view, insufficient progress.” More recently, in 2007, the President’s Foreign Intelligence Advisory Board prepared a classified, critical assessment of the state of U.S. domestic intelligence that precipitated renewed internal reform efforts at the FBI.
- ⁸ A certain amount of interagency responsibility may also be delegated to outside agencies, particularly the National Counterterrorism Center; but, in general, the centrifugal tendencies of the agencies in question are so strong that interagency coordination will be most effective if exercised from within the White House.

Appendix: Major Post-9/11 Counterterrorism Bills and Court Cases

2001

- Authorization for Use of Military Force
- USA PATRIOT Act of 2001
- Aviation and Transportation Security Act of 2001

2002

- Enhanced Border Security and Visa Entry Reform Act of 2002
- Public Health Security and Bioterrorism Preparedness and Response Act of 2002
- Terrorism Bombings Convention Implementation Act of 2002
- Authorization for Use of Military Force Against Iraq Resolution of 2002
- Homeland Security Act of 2002
- Terrorism Risk Insurance Act of 2002
- Cyber Security Research and Development Act
- In re: Sealed Case No. 02-001 (Foreign Intelligence Surveillance Court)

2004

- Project BioShield Act of 2004
- Intelligence Reform and Terrorism Prevention Act of 2004
- *Hamdi v. Rumsfeld*
- *Rumsfeld v. Padilla*
- *Rasul v. Bush*

2005

- Terrorism Risk Insurance Extension Act of 2005
- USA PATRIOT Act Improvement and Reauthorization Act of 2005

2006

- McCain Amendment to 2006 Emergency Supplemental (re: torture)
- National Defense Authorization Act for Fiscal Year 2006
- USA PATRIOT Act Additional Reauthorizing Amendments Act of 2006
- Security and Accountability For Every (SAFE) Port Act of 2006
- Military Commissions Act of 2006
- Secure Fence Act of 2006
- *Hamdan v. Rumsfeld*

2007

- Implementing Recommendations of the 9/11 Commission Act of 2007
- Protect America Act of 2007
- Foreign Investment and National Security Act of 2007
- Terrorism Risk Insurance Program Reauthorization Act of 2007

2008

- *Boumediene v. Bush*
- *Munaf v. Geren*

*“The best remedy to the current malaise can be summed up in three words:
consult, consult, consult.”*

— ANTONY J. BLINKEN

A Decent Respect to the Opinions of Congress: Putting the Executive-Legislative Relationship Back on Track*

Antony J. Blinken

Staff Director
U.S. Senate Foreign Relations Committee

“There is but one way for a president to deal with Congress, and that is continuously, incessantly, and without interruption. If it is really going to work, the relationship has got to be almost incestuous. He’s got to know them even better than they know themselves. And then, on the basis of this knowledge, he’s got to build a system that stretches from the cradle to the grave, from the moment a bill is introduced to the moment it is officially enrolled as the law of the land.”

— President Lyndon Baines Johnson

Two hundred and twenty years ago, the framers of our Constitution gave the executive and legislative branches distinct but overlapping powers, setting in motion a perpetual “struggle for the privilege of directing American foreign policy.”¹

Ever since, power has flowed from one end of Pennsylvania Avenue to the other. In times of peace and domestic focus, Congress typically sees its power expand at the expense of the executive. In times of crisis—especially war and international tension, but also major economic downturns—the executive tends to dominate. The president’s ability to act swiftly, decisively, and discretely trumps the need for more consensual, deliberative, and transparent democracy.

Thus, President Washington accorded diplomatic recognition to France, issued a proclamation of neutrality in the Franco-British war, empowered the chief justice

* This paper was authored in spring of 2008.

of the Supreme Court to negotiate Jay's Treaty with Britain and refused to give the House of Representatives access to diplomatic correspondence regarding the treaty. President Lincoln asserted the doctrine of a presidential "war power," suspending habeas corpus, expanding the army, blockading southern ports, and using un-appropriated money in the Treasury for the war. President Theodore Roosevelt ignored the requirement for the Senate's consent in treaties involving the Dominican Republic and Panama. As Lee Hamilton notes, "the twentieth century presidents who enjoyed the greatest control over foreign policy—Woodrow Wilson until 1918, Franklin Roosevelt after 1941, Harry Truman, Dwight Eisenhower, John Kennedy, Lyndon Johnson—governed during major wars or at the height of the Cold War."²

In the context of this history and in the shadow of 9/11, it is not surprising that President George W. Bush strongly asserted executive power in the conduct of America's foreign policy and the preservation of the nation's security. What is striking is the extent to which the Bush administration is seen by Congress and a broad spectrum of observers to have pushed the pendulum too far.

The criticism is equal parts institutional and partisan. Democratic Senator Diane Feinstein argues that the expansion of executive power will be seen as the "lasting legacy" of the Bush administration, whose message to Congress has been: "what you do isn't really important; I'm going to do what I want to do."³ Republican Representatives Pete Hoekstra and Ileana Ros-Lehtinen complain that the administration's failure to fully brief Congress on matters of national security "jeopardizes the relationship between our two branches of government."⁴ No less of an authority on presidential power than John Dean, the counsel to President Nixon, has this to say:

No presidency that I can find in history has adopted a policy of expanding presidential powers merely for the sake of expanding presidential powers. Presidents in the past to have expanded their powers have done so when pursuing policy objectives. It has been the announced policy of the Bush/Cheney presidency, however, from its outset, to expand presidential power for its own sake, and it continually searched for avenues to do just that, while constantly testing to see how far it can push the limits...and for all practical purposes this presidency has remained largely unchecked by its constitutional co-equals.⁵

Dean's assessment sounds extreme but it captures the feelings of many members of Congress of both parties and it suggests that, for the next president, there are fences to be mended.

Both major party candidates for president are sitting members of Congress. Both have pledged to seek a more cooperative working relationship between the executive and legislative branches. Once in office, the respect that Barack Obama and John McCain profess for the separation of powers may disappear. Assuming that their good intentions endure, what should the next president do to put the executive-legislative relationship back on track? What should the new Congress do to meet the president half way?

To answer these questions, the place to start is with the actions and practices of the current administration and Congress.

Restoring the Imperial Presidency?

Vice President Dick Cheney and Defense Secretary Donald Rumsfeld—the two most senior members of President George W. Bush’s first administration—are both veterans of Congress. It would have been reasonable to assume that each would impress upon a president with little Washington experience, whose election was decided by the Supreme Court, the importance of a good working relationship with Congress. In fact, Cheney and Rumsfeld proved to be among the strongest advocates for the restoration of executive power.

Their experience in the Ford administration—Cheney as chief of staff, Rumsfeld as defense secretary—deeply colored their world view. Each resented the post-Watergate, post-Vietnam laws passed by Congress to restrain the power of the president, notably the War Powers Resolution.⁶ Each believed that Congress’ vote to cut off funding for the Vietnam War in 1973 (and its refusal in 1975 to provide emergency aid to Saigon) undercut the president’s ability to end the war responsibly and undermined his power. In the words of Vice President Cheney:

The feeling I had [during the Ford years] and I think it’s been borne out by history, that in the aftermath, especially of Vietnam and Watergate, that the balance shifted, if you will, that in fact the presidency was weakened, that there were congressional efforts to reign in and to place limits on presidential authority.⁷

For the remainder of the 1970s and into the 1990s, Congress repeatedly flexed its foreign policy and national security muscles: prohibiting military aid to Turkey, tying trade with the Soviet Union to human rights, requiring approval for arms sales, imposing sanctions on South Africa over President Reagan’s veto, denying aid to the Contras in Nicaragua, refusing to approve the Comprehensive Test Ban Treaty and fast-track trade authority, and begrudging funding for the United Nations and peacekeeping, to cite the best known examples.⁸

Cheney and Rumsfeld returned to the executive branch determined to reverse the erosion of power to Congress and restore the imperial presidency. At the start of his administration, President Bush took up the cause, instructing senior members of the White House staff that a key component of their affirmative agenda was to seek out and seize opportunities to protect and expand executive power.⁹

Then came 9/11.

The Expansion of Executive Power After 9/11

In the days after 9/11, public approval of the president jumped from fifty-one percent to eighty-six percent. Americans of all political persuasions and their representatives in Congress wanted the president to succeed. The crisis atmosphere—prolonged by terrorism alerts, non-stop media coverage of security threats and the war in Afghanistan—enhanced the president’s influence and authority. It also laid the foundation for the Bush administration’s sweeping assertion of executive authority.

Inherent Executive Authority

Nowhere is the tension between the executive and the legislative branches more acute than on the question of which branch wields the power to start and stop wars.

Congress’ answer to the constitutional tug-of-war—the 1973 War Powers Resolution—never worked as intended. Despite numerous armed conflicts since the law’s passage, the executive has ignored it, Congress has never formally invoked it, and the courts have refused to enforce it on the grounds that it presents a political question.

In the months after 9/11, the Bush administration pushed through this already fragile envelope. The Office of Legal Counsel—which provides legal advice to the president—and the White House counsel issued opinions that would shape the administration’s relations with Congress in matters of national security. The president, not Congress, has “plenary constitutional power to take such military actions as he deems necessary and appropriate to respond to the terrorist attacks upon the United States...” “The President enjoys complete discretion in the exercise of his Commander-in-Chief authority and in conducting operations against hostile forces.”¹⁰

Based on these opinions, and usually without consulting Congress, the administration issued executive orders authorizing torture, warrantless wiretaps, indefinite detentions, and military tribunals, while rejecting habeas corpus and the

application of the Geneva Conventions to U.S. captives.¹¹ The executive considered itself unbound by the Geneva Convention (a treaty to which the Senate had provided its advice and consent), by any laws about prisoners or by the Detainee Treatment Act.

In effect, the administration put into practice the theory that in times of war—even a global war of potentially endless duration—the president has inherent authority as commander in chief to act irrespective of Congress’ views and that a presidential policy takes precedence over public law.

In fairness, in most of the instances cited above Congress did little or nothing to object to the substance of the steps taken. The courts, not Congress, ultimately rolled back the administration’s efforts to expand executive power.¹²

What explains Congress’ timidity? In the immediate aftermath of 9/11, a natural “rally ‘round the flag” spirit swept up Democrats and Republicans alike in support of the president. Three days after the terror attack, Congress gave the president broad authority to prosecute a global war on terror. The Patriot Act—which granted the federal government enhanced powers to seize business records, conduct electronic surveillance, and jail or deport non-citizens—passed Congress six weeks later. In the run-up to the 2002 mid-terms elections, most Democrats—reluctant to criticize the administration on national security for fear of looking weak—supported the president’s request for the authority to use force in Iraq. Those elections restored Republican control in both chambers, and with it a majority’s natural reluctance to oppose a president of its own party.

This combination—the executive aggressively asserting plenary powers while Congress put up little resistance—created a self-perpetuating dynamic throughout the first term of the George W. Bush administration.

A Lack of Cooperation

In March 2003, the Senate Foreign Relations Committee sought the testimony of General Jay Garner, the civilian administrator for Iraq, to discuss the administration’s plans for post-conflict stability operations. The morning of the hearing, General Garner cancelled his appearance, citing urgent business at the Pentagon, which turned out to be a press conference beamed live at the very time of the hearing. The committee’s Republican chairman, Senator Richard Lugar, called the incident “a fiasco.” In August 2006, the Armed Services Committee convened a major oversight hearing on Iraq. The CENTCOM commander and the chairman of the Joint Chiefs readily agreed to testify; Defense Secretary Rumsfeld refused until one leading senator made his refusal a public issue.

The most senior administration officials testify less frequently than their predecessors before their Committees of jurisdiction, citing busy schedules and leaving Congress with the option of hearing from lesser officials or issuing subpoenas. For example, during her four years in office, Secretary of State Rice has testified before the Senate Foreign Relations Committee eight times, compared to Warren Christopher who testified sixteen times and Madeleine Albright twelve times.

When the most senior officials do testify, they try to limit their exposure by setting time limits on their availability and filibustering answers to questions so as to exhaust the time their examiners are allotted.

Signing Statements

Presidents routinely add “statements on signing” to legislation they have just approved, typically to explain their support for the bill and sometimes to raise concerns with specific provisions.¹³

President George W. Bush has used these statements for a different purpose: To assert his right not to enforce laws that he believes violate the Constitution or undermine national security. The Ford, Carter and Reagan administrations also used signing statement to raise constitutional issues with legislation. President Bush has done so with much greater frequency, issuing more signing statements than all of his predecessors combined.¹⁴

In these statements, President Bush has stated his intent to: redefine the torture ban passed with strong bipartisan support in Congress; ignore a requirement that he inform Congress about secret home searches under the Patriot Act; open U.S. mail without judicial warrant; interpret Senate conditions on a peaceful nuclear cooperation agreement with India; and challenge restrictions against using Congressional appropriations to build permanent U.S. military bases in Iraq.

This practice has struck a raw nerve in Congress on both sides of the aisle. Senator Arlen Specter, the senior Republican on the Judiciary Committee, complains that the president’s actions are a declaration that “he will do as he pleases” without regard to laws passed by Congress. The committee’s senior Democrat, Senator Patrick Leahy, calls the president’s use of these statements “an extra-constitutional, extra-judicial step to enhance the power of the president.”¹⁵

Failure to Consult

A general culture of secrecy permeates the administration’s dealing with Congress and the public. Vice President Cheney went to the Supreme Court to prevent Congress from learning the identities of the members of his energy task

force. The administration has invoked the “state secret privilege” more than any previous administration to get potentially embarrassing cases thrown out of court on grounds they would reveal national security secrets. It has classified a much greater number of documents than its predecessors and declassified far fewer.

When *The New York Times* revealed in December 2005 that the administration had been conducting electronic surveillance without adhering to the rules of the Foreign Intelligence Surveillance Act (FISA), President Bush argued that the new procedures had been “reviewed by members of the United States Congress.” In fact, only eight members—the leaders of both houses and their respective Intelligence Committees—were briefed and then sworn to secrecy: They could not tell other members of Congress or their staffs about the new program, nor could they raise concerns in public or take corrective actions. Senator Jay Rockefeller, the senior Democrat on the Senate Select Committee on Intelligence, raised objections by hand-writing a note to Vice President Cheney, copying the note, and putting a sealed copy in his safe for posterity.¹⁶

Perhaps the most telling comment came from Attorney General Alberto Gonzales. He explained that the administration had not gone to Congress to seek changes to the FISA statute because it believed Congress would not grant new authorities.¹⁷

The failure to consult extends beyond the war on terrorism. In any administration, there is an inherent tension between the need to pursue negotiations with foreign countries discretely and the desirability of keeping Congress informed. The Bush administration is seen by both parties in Congress as having erred on the side of secrecy, undermining support it would ultimately need from the legislature.

Most administrations submit routine protocols without prior consultation, such as tax treaties or law enforcement agreements. It is another matter to negotiate novel or strategically significant agreements without informing Congress, soliciting its views, or being fully forthcoming. In doing so repeatedly, the Bush administration raised expectations with foreign partners while alienating Congress. Among the most noteworthy examples:

- **European Missile Defense:** It took weeks of requests after the initiative went public before the administration briefed Congress. The failure to secure congressional support has left the Czech and Polish governments on a political limb.
- **Operation Balikitan in the Philippines:** The administration described the operation to Congress as a “training exercise,” failing to disclose that

American troops would take part in combat operations, which created a public uproar in the Philippines.

- **Peaceful Nuclear Cooperation Agreement with India:** The administration announced the deal as a fait accompli. During negotiations, Congress was substantively shut out. The agreement presented to Congress had virtually no chance of passage; only a major effort by the chairman and ranking members of the Senate Foreign Relations Committee to rework the agreement and convince their colleagues overcame significant opposition.
- **Military Commissions:** While not a treaty or international agreement, the administration's scheme for military tribunals would have benefitted from prior consultations with Congress to give the tribunals a strong legal foundation and legitimacy. The failure to do so resulted in damage to America's international standing, significant expenditures of money and human resources, and no convictions.
- **Merida Counter-Narcotics Initiative with Mexico:** The administration negotiated the most significant counter-narcotics agreement since Plan Colombia without informing Congress, then presented it with a multi-billion dollar funding request. Congressional appropriators ultimately provided \$100 million less than the administration had requested while attaching conditions on human rights, transparency, and accountability that caused the Calderon administration to threaten to reject the aid package.
- **Status of Forces and Strategic Framework Agreement with Iraq:** The administration's failure to keep Congress informed of the status of the negotiations resulted in strong bipartisan denunciations. In a letter to the secretary of state and secretary of defense, the four most senior members of the Senate Foreign Relations Committee wrote: "[The administration] told the Committee that the Executive Branch would consult closely with Congress 'throughout the entire process.' Thus far, the Administration has not followed through on this commitment. [You] have provided scant detail on what these agreements will contain, despite clear bipartisan expressions...that our Committee and the Congress as a whole expected the Administration to be fully transparent about its intentions and the progress of deliberations."¹⁸

Recess Appointments

The Constitution gives the president the power to make appointments otherwise requiring congressional approval when Congress is out of session and unable to act.¹⁹ During the early days of the Republic, when Congress adjourned for months at a time, presidents used the power to avoid vacancies.

Today, Congress rarely stands in recess for more than a month at a time, but presidents of both parties regularly abuse the original intent by using the recess appointment power when Congress is unwilling to act. When Congress refuses to vote on a nominee, the president waits until a congressional recess and makes an executive appointment that lasts for the duration of the Congress. President Reagan made 243 recess appointments, President George H.W. Bush made 77, President Clinton made 140 and President George W. Bush has made 171 thus far. Of their recess appointments, President Clinton made twenty-nine in the jurisdiction of the Foreign Relations Committee while President George W. Bush has thus far made forty-six.

President George W. Bush took his recess appointment power one step further by using it when Congress was on the verge of acting contrary to his wishes. The administration withdrew a candidate to be ambassador one hour before the Senate Foreign Relations Committee was to vote on the nomination because the White House knew he would be rejected. One week later, the nominee was given a recess appointment. That led the committee's chairman to freeze political ambassadorial nominations for six months.²⁰ By 2008, the president's regular use of the recess power to appoint judges and other nominees who stood little chance of confirmation caused the Senate majority leader to declare that he would keep the Senate in continuous session until the end of the administration to prevent further recess appointments.

Emergency Budgets

A final source of frustration in Congress is the administration's reliance on supplemental budget appropriations to fund the wars in Iraq and Afghanistan, as well as a variety of other activities. Since 2001, the administration's supplemental budget requests have totaled \$645 billion, about the amount of the annual defense budget. Emergency requests are supposed to fund unanticipated expenses; seven years into the war in Afghanistan and six years into the war in Iraq, it is hard to argue that these budgets could not be anticipated.

The reliance on emergency budgets means that far too much foreign and national security policy is set by appropriators, who understandably focus more on the fiscal bottom line than on substantive policy concerns. Power has shifted away

from the authorizing committees, whose members have greater policy expertise and who are better placed to hold the executive accountable for its policy as opposed to its spending decisions.

Legislative Road Blocks

The Bush administration's efforts to expand executive power are the primary reason for its dysfunctional relationship with Congress—but not the only reason. Congress bares its share of the blame.

Micromanagement

Hundreds of open-ended requirements for the executive to provide Congress with regular reports on foreign relations issues have accumulated over the years. In principle, reporting requirements are an essential tool for Congress to conduct oversight of the executive's policies and to ensure transparency and accountability. In practice, too many redundant or no longer relevant reports, required too frequently, monopolize staff time in the executive branch—and then go unread or unused by the legislative branch.

For example, a report every two months on progress toward a Cyprus settlement is excessive. So are two reports a year on upgrades to embassy security. Congress is right to want to know an administration's efforts to support human rights—but a quarterly report would be just as useful as a monthly report. The Afghanistan Freedom Support Act requires three separate and overlapping reports on reconstruction and security assistance—these could be consolidated into one report.

Linkage

During the 1990s, Congress linked UN funding to abortion and tied non-proliferation efforts with Russia to ratification of the Chemical Weapons Convention. More recently, Congress linked the release of UN arrears to implementation of the American Service Members Protection Act, which denies military assistance to countries that refuse to exempt American soldiers from prosecution by the International Criminal Court. It also bound together support for the peaceful nuclear cooperation agreement with India and implementation of the Additional Protocol with the IAEA.

Linkage is leverage—in an atmosphere of bad faith and non-cooperation, it is one of the few tools Congress possesses to secure administration support for initiatives that matter to Congress but not to the White House. It would be preferable for Congress to consider issues on their independent merits.

Nominations

In recent years, so-called “holds”—a request by one member of the Senate to delay full Senate consideration of a nominee already approved in committee—have expanded exponentially. Sometimes, senators use them to make a point—in recent weeks, individual senators blocked votes on nominees to be Ambassador to South Korea (because the administration is allegedly insufficiently attentive to human rights in North Korea), Macedonia (because that country’s leadership makes irredentist statements about Greece), and Armenia (because the administration refuses to explicitly acknowledge the Armenian Genocide). Senators also use their hold power to secure unrelated information or action from the executive.

Like filibusters, holds can be broken by a vote of sixty senators. As a practical matter, the Senate leadership rarely pursues this step, because doing so requires giving up as much as three days of valuable floor time.

More broadly, there is concern that the nomination and confirmation process is broken—a concern that is especially relevant on the eve of a presidential and congressional transition. With hundreds of thousands of Americans deployed overseas in two major wars and the risk of terrorism real, “the nation cannot afford to wait six months to have key national security officials in place,” write Michèle Flournoy and Richard Armitage in arguing for an expedited clearance and confirmation process.²¹

The problem lies on both ends of Pennsylvania Avenue. Before a nomination even gets to the Senate, the executive branch must jump through numerous hoops. Presidential personnel decide on a nominee, complete an initial vet, and recommend him or her to the president. Once the president signs off, the nominee must complete at least four major questionnaires: a White House personal data statement, a Senate questionnaire, a Security Clearance Form, and a Financial Disclosure Form. Most nominees hire lawyers to review their answers. The FBI or the State Department’s Bureau of Diplomatic Security then conducts a background investigation. Lawyers at the White House and State Department review the questionnaires and the results of the investigation. The Office of Government Ethics must review and approve the Financial Disclosure Form. Thus, in 2001, most under secretaries were not referred to the Senate until March and most assistant secretaries were not sent forward until April or May.

Once before the relevant Senate committee, counsels for the majority and minority must conduct their own due diligence. The Foreign Relations Committee majority has just two lawyers on staff to review nominee files and see to their other responsibilities (including analyzing every piece of legislation and every treaty that

comes before the committee). Despite these constraints, in 2001, the committee processed senior State Department nominees with expediency: The average time between referral to the committee and a vote by the committee was two weeks for the under secretaries and assistant secretaries. Confirmation by the full Senate typically followed within one week.

Flournoy and Armitage make valuable suggestions for speeding up the confirmation-nomination process. But in a culture of heightened public scrutiny, it is not clear how much faster either branch of government can move without loosening financial disclosure and conflict rules or otherwise short-circuiting due diligence.

Shirked Responsibilities

Despite the War Powers Resolution, Congress has repeatedly failed to authorize—or stop—the introduction of U.S. forces into hostilities or potential hostilities: witness Grenada, Panama, Somalia, Haiti, Bosnia, and Kosovo. It is hard to take seriously congressional complaints of executive heavy-handedness when Congress fails to even try to assert its own powers.

Critics contend that vigorous congressional oversight has “collapsed” especially in foreign affairs and national security. “From homeland security to the conduct of the Iraq war, from allegations of torture at Abu Ghraib to the surveillance of domestic phone calls... Congress has mostly ignored its responsibilities.”²²

There is truth to this charge—as noted above, Congress rallied behind the president in the wake of 9/11; Democrats were reluctant to criticize the administration’s national security policies for fear of looking weak; Republicans controlled one or both houses of congress until 2007; authorizers with policy expertise took a back seat to appropriators with a fiscal focus; and the executive refused to consult or take part in hearings.

But it doesn’t tell the whole story. For example, the Senate Foreign Relations Committee conducted dozens of hearings on Iraq in the nine months leading up to the war, which anticipated virtually all of the problems America would confront. It has conducted dozens more since the war began, including thirteen Iraq-related hearings in the month of January, 2008 alone. These hearings helped raise doubts about the administration’s policies and, in 2008, fueled efforts by Democrats to legislate a change in course. But with a bare majority in the Senate, Democrats got no closer than fifty-three votes to the sixty votes required to send a new policy mandate to the president—and nowhere near the sixty-seven votes required to overcome a veto.

The Next President, the Next Congress

Presidential power is not a partisan issue. Indeed, the next president may well be a Democrat acting on a new foundation of executive authority established by his Republican predecessor, faced with a Democratic Congress that will have to decide between fealty to party and loyalty to institution—and, arguably, the Constitution. It would be unfortunate and unhealthy if the new president and the new Congress continue down the road of their immediate predecessors and throw the constitutional separation of powers further out of balance.

The best remedy to the current malaise can be summed up in three words: consult, consult, consult.

The next president and the next Congress should make a sustained effort to inculcate a culture of consultations, before decisions are made. The president himself should meet regularly with a permanent consultative group of senior members of Congress. Lee Hamilton, James Baker, and Warren Christopher suggest that such a group could be comprised of the congressional leadership of both houses as well as the chairman and ranking member of the Foreign Relations, Armed Services, and Intelligence Committees. Members with specific expertise could be included on an ad hoc basis.²³

The most senior executive branch officials—cabinet secretaries and deputy secretaries—should testify before their committees of jurisdiction on a regular basis and brief them in private at least once a month. Congress should solicit and welcome even more regular briefings from more junior officials with genuine subject matter expertise. Especially if one party controls both branches of government, the executive will have to make a concerted effort to include the minority party in consultations.

There are other steps the next administration should take to reverse the erosion in executive-legislative relations.

The executive should raise objections about legislation at the drafting stage and in any event before Congress votes, not in ex post facto signing statements. One way to do this is through a “Statement of Administration Policy” or SAP. If Congress passes legislation that the president does not like, the proper response is not a signing statement declaring he will not enforce the law. It is a veto. The next administration also should reserve supplemental budget requests for matters that could not be anticipated.

As to Congress, it should work with the executive to expedite and put more resources into the nomination process, end or minimize holds on nominations, and systematically review reporting requirements to eliminate unnecessary or duplicative reports.

In the end, maybe the best advice came from our first president. George Washington had five rules for relations with Congress:

1. Congress must receive prompt, concise reports on all questions that involve military secrets of immediate bearing.
2. In these reports and in everything else, the authority of Congress is always to be acknowledged with proper deference and the Army must be represented as consistently subordinate to the civil arm of the continental government.
3. Concerning matters that could not be discussed in papers transmitted officially to Congress, it is desirable to write personally to friendly delegates who would use their discretion in passing these letters to other members.
4. Congress must have repeated and indisputable assurance that its orders would be obeyed promptly and economically if this were possible; and, if not, members are to be told why delay or change seemed necessary.
5. There is to be no public criticism of Congress by Washington and no imputation of unworthy motive. On the contrary, delegates always are to be credited with seeking the country's welfare and that only.²⁴

Here, as in so many other areas, the wisdom of our Founding Fathers speaks to us across the decades, with simplicity and eloquence. Will the next president listen?

Antony Blinken was appointed Staff Director for the U.S. Senate Foreign Relations Committee in April 2002. Prior to his position with the Senate, Mr. Blinken served on the National Security Council staff at The White House from 1994 to 2001. From 1999 to 2001, he was Special Assistant to the President and Senior Director for European and Canadian Affairs. From 1994 to 1998, Mr. Blinken was Special Assistant to the President and Senior Director for Strategic Planning and NSC Senior Director for Speechwriting. He has served as Special Assistant to the Assistant Secretary of State for European and Canadian Affairs, and was a lawyer in New York and Paris. He served as Senior Fellow at the Center for Strategic and International Studies from 2001 to 2002. He has been a reporter for The New Republic magazine and has written about foreign policy for numerous publications. He is the author of the book *Ally Verses Ally: America, Europe and the Siberian Pipeline Crisis* (1987). Mr. Blinken is a graduate of Harvard College and Columbia Law School. He is a member of the Aspen Strategy Group.

- ¹ Constitutional scholar Edwin Corwin, as cited in Norman J. Ornstein and Thomas Mann, “When Congress Checks Out,” *Foreign Affairs*, November/December, 2006. The president is commander in chief and head of the executive branch. Congress has the power to declare war and the power to fund—or defund—war. The president negotiates treaties and makes senior level appointments in the realm of foreign policy, but the Senate must provide its advice and consent.
- ² For concise histories of the relative power of the executive and the legislative branches from Washington until today, see James A. Thurber, “An Introduction to Presidential-Congressional Rivalry,” and Lee H. Hamilton, “The Making of U.S. Foreign Policy: The Roles of the President and Congress Over Four Decades,” both in James A. Thurber, ed., *Rivals for Power: Presidential-Congressional Relations* (New York: Rowman and Littlefield, 2006).
- ³ Kate Zernike, “Bush’s Use of Authority Riles Senator,” *New York Times*, June 28, 2006.
- ⁴ Peter Hoekstra and Ileana Ros-Lehtinen, “Splitting a constitutional nucleus,” *Washington Times*, May 1, 2008.
- ⁵ John Dean, testimony before the Senate Judiciary Committee, March 2006.
- ⁶ The War Powers Resolution of 1973 requires the president to: 1) consult with Congress before introducing U.S. forces into hostilities or imminent hostilities; 2) report to Congress when such forces are introduced; and 3) terminate the use of such forces within sixty to ninety days unless Congress formally authorizes their use or extends the time period.
- ⁷ Kenneth T. Walsh, “The Cheney Factor,” *U.S. News and World Report*, January 23, 2006, 48.
- ⁸ Arguably, Presidents Carter and George H.W. Bush were the most successful at dealing with an assertive Congress. Carter put in tremendous time and effort to secure support for the Panama Canal Treaty and arms sales to Saudi Arabia. President George H.W. Bush did the same to obtain authorization for the first Gulf War.
- ⁹ This according to Charlie Savage, a Pulitzer Prize winning reporter for the *Boston Globe*, who recounts in his book *Takeover: The Return of the Imperial Presidency and the Subversion of American Democracy* that then-White House Counsel Alberto Gonzales issued this instruction on the president’s behalf at the very first Counsel’s Office meeting in January 2001. The administration also unilaterally raised the standard for releasing records to Congress under the Freedom of Information Act.
- ¹⁰ See Alberto R. Gonzales, “Memorandum for the President,” January 25, 2002; Jay S. Bybee, “Memorandum for Alberto R. Gonzales, Counsel to the President re: Standards of Conduct for Interrogation Under 18 U.S.C. Sec. 2340-2340A,” August 1, 2002.
- ¹¹ Senior administration officials also argued that the president did not need explicit authority from Congress to act militarily against Afghanistan and Iraq, although in both instances the administration ultimately sought and secured Congressional authorization.
- ¹² In *Hamdi v. Rumsfeld* (2004), the Court ruled that U.S. citizens had the right to challenge their imprisonment in court. In *Rasul v. Bush* (2004) the Court ruled that non-citizens could challenge their detentions through habeas corpus petitions. In *Hamdan v. Rumsfeld* (2006) the Court invalidated the Bush administration’s scheme for military commissions because it was not based on U.S. law and violated the Geneva Conventions. In *Boumediene v. Bush* (2008) the Court held that alien unlawful enemy combatants detained at Guantanamo Bay have a constitutional right to habeas corpus and that provisions of the Detainee Treatment Act and the Military Commissions Act that purport to

deny detainees habeas corpus are unconstitutional.

¹³The use of signing statements was rare during the first 150 years of America's history; President James Monroe pioneered the practice, for purely rhetorical purposes. The Ford and Carter administrations began to use the statements to raise questions about the constitutionality of legislation. The Reagan administration made this a regular practice, and published signing statements in the *United States Congressional Code and Administrative News* with the intent of making the statements a formal part of a laws legislative history, which is taken into account by courts interpreting the law. See James P. Pfiffner, "The Contemporary Presidency: Constraining Executive Power: George W. Bush and the Constitution," *Presidential Studies Quarterly*, March 2008.

¹⁴According to a study by the American Bar Association, President George W. Bush issued more than 1,000 challenges to provisions in 150 laws during his first six years in office. By comparison, President Clinton issued 140 signing statements, President George H.W. Bush 232 and President Reagan 95.

¹⁵As quoted in Zernike "Bush's Use of Authority Riles Senator," *New York Times*, June 28, 2006.

¹⁶Charles Babington and Dafna Linzer, "Senator Sounded Alarm," *Washington Post*, December 20, 2005.

¹⁷Dan Eggen, "Draft Legislation Covered Eavesdropping," *Washington Post*, January 28, 2006.

¹⁸Letter from Senators Joseph R. Biden, Jr, Richard Lugar, John Kerry, and Chuck Hagel to Secretary of State Rice and Secretary of Defense Gates, June 4, 2008.

¹⁹"The President shall have power to fill up all vacancies that may happen during the recess of the Senate by granting commissions which shall expire at the end of their next session." (Article II, Section 2, Clause 3). Alexander Hamilton noted in *Federalist* No. 67 that the recess power is "nothing more than a supplement... for the purposes of establishing an auxiliary method of appointment, in cases to which the general method was inadequate."

²⁰Around the same time, President Bush gave a recess appointment to his nominee to be the head of the Office of Management and Budget despite the fact that the relevant committee was scheduled to act on the nomination and he recess appointed a Social Security Administration commissioner unlikely to be confirmed. President Clinton gave his nominee to be assistant attorney general for civil rights a recess appointment even though it was clear the Senate was prepared to act on and reject the nomination.

²¹Richard Armitage and Michèle A. Flournoy, "No Time for Nobody Home," *Washington Post*, June 9, 2008.

²²See Ornstein and Mann, "When Congress Checks Out," *Foreign Affairs*, November/December 2006.

²³Baker and Christopher, as leaders of the National War Powers Commission, go even further and propose rewriting the War Powers Resolution itself. They rightly identify the fundamental flaws in the original legislation, but it is not clear that their proposed solution—or any legislative fix—can or should overcome the fact that the Constitution divides the war making power between the executive and legislative branches and, in effect, trusts them to work it out.

²⁴See Douglas Southall Freeman, *George Washington: A Biography* (New York: Augustus M. Kelley Publishers, 1948).

Part **3**

SUSTAINING AMERICA'S FINANCIAL LEADERSHIP IN THE GLOBAL ARENA

CHAPTER 7

U.S. Leadership for a New Global Capital Markets Order

Diana Farrell

Director, McKinsey Global Institute,
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CHAPTER 8

Can America Still Lead In the Global Economy?

Lael Brainard

Vice President and Director, Global Economy and Development,
The Brookings Institution

David Lipton

Managing Director and Head of Global Country
Risk Management
Citigroup

“Clearly, policymakers should streamline the U.S. regulatory system to eliminate this duplication and close the loopholes that gave rise to the credit crisis. But they also need to look beyond fixing the old system and toward creating a new framework that will enable capital markets to grow, evolve, and thrive in the future.”

— DIANA FARRELL

U.S. Leadership for a New Global Capital Markets Order

Diana Farrell*

Director, McKinsey Global Institute,
McKinsey & Company

The credit crisis of the last year has underscored the need for a “new financial architecture” of rules, institutions, and oversight systems for rapidly changing global capital markets. Financial innovation has outrun risk management. New players operate beyond the reach of regulators, and agencies designed to monitor specific financial activities find themselves ill-equipped to cope with broader systemic risks. Policymakers agree they need to redesign the existing 20th century regulatory apparatus to meet 21st century needs, but to update the system effectively, all parties involved must recognize how the financial landscape is shifting in three key ways.

First, financial wealth and power are dispersing away from Western economies and institutions and toward other regions and new global players. Second, many foreign governments are becoming direct actors in capital markets through sovereign wealth funds (SWFs), central banks, and state-owned enterprise activities. Finally, private pools of investor capital have grown big enough to offer an alternative source of financing outside the scope of public securities markets and beyond the reach of regulators.

These changes challenge financial markets around the world and pose new difficulties for regulators. The United States has a particularly strong interest in leading the effort to forge an effective response; no other country has benefited more from the rapid growth and evolution of modern capital markets over the past quarter century. By the end of 2007, the U.S. financial market was the world’s largest, with \$61.2 trillion in assets, accounting for nearly one-third of the global total of \$196 trillion (Exhibit 1). The United States is a hub in the global financial system, attracting \$1.9 trillion in capital inflows in 2007 and investing \$1.2 trillion in the rest of the world (Exhibit 2). Until the credit crisis and current recession, the U.S. economy had expanded as its investors found new ways to channel their

*At the time of writing, the author was Director of the McKinsey Global Institute. She has since joined the Obama administration as deputy director of the National Economic Council and deputy assistant to the President for economic policy.

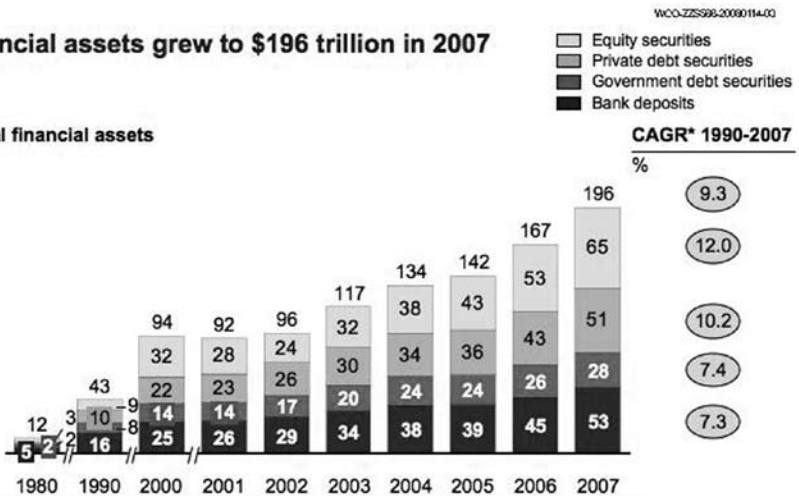
savings, its companies enjoyed ample financing, and its households could easily borrow to buy homes, pay tuition bills, and pursue other activities. New York, Chicago, San Francisco, and other metropolitan areas thrived on the jobs and income that flowed from the financial industries. The right policies will ensure capital markets emerge from the current turmoil to once again become sources of prosperity in the United States and beyond for years to come.

In this paper, we at the McKinsey Global Institute identify the primary challenges facing the global economy, describe the limitations of U.S. financial policy tools, pose the questions policymakers need to ask, and offer recommendations for action. We do not fully assess other proposals under discussion, but by identifying the issues, we help lay the foundation for progress.

Exhibit 1

Global financial assets grew to \$196 trillion in 2007

Value of global financial assets
\$ trillion



Nominal GDP \$ trillion	10	22	32	32	33	37	42	45	49	55
Financial depth % of GDP	109	201	294	290	292	315	321	314	342	359

* Compound annual growth rate.

Note: Some numbers do not add up due to rounding.

Source: McKinsey Global Institute Global Financial Stock Database

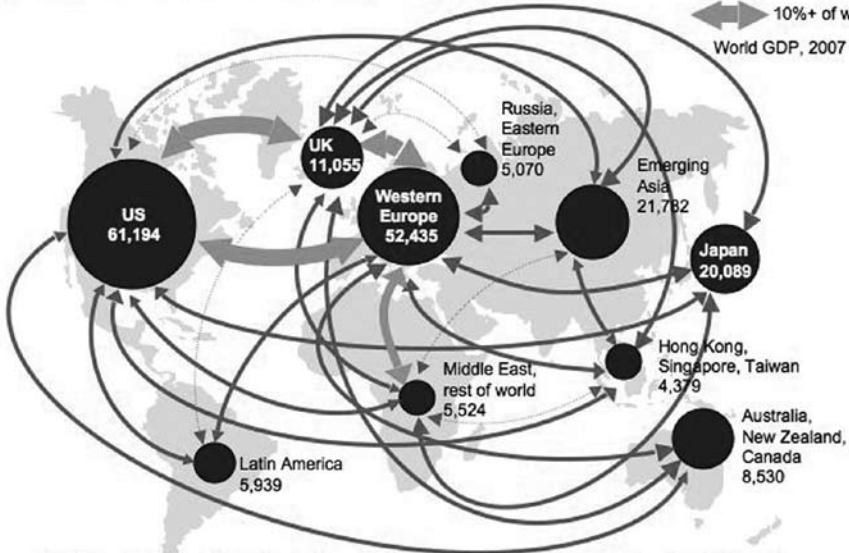
Exhibit 2

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Cross-border investments have increased, linking financial markets

Lines show total value of cross-border investments between regions*, 2007
 Figures in bubbles show size of total domestic financial assets, \$ billion

← 0.5-1% of world GDP
 ↔ 1-5% of world GDP
 ↔ 5-10% of world GDP
 ↔ 10%+ of world GDP
 World GDP, 2007 = \$55 trillion



* Includes total value of cross-border investments in equity and debt securities, lending and deposits, and foreign direct investment.

Source: McKinsey Global Institute analysis

Shifting Global Financial Landscape Poses New Challenges for Markets and Policymakers

Looking back, historians may well pinpoint the early years of the 21st century as a major turning point in the development of global financial markets. The bursting of the technology stock bubble in 2000 caused many investors to retrench briefly. But from then until the fall of 2008, the euro took off as a single currency linking most of Europe’s financial markets, oil prices soared, globalization gained momentum and created huge trade surpluses in Asia, and GDP growth rates climbed sharply in China, India, and other emerging markets. These changes sparked three key trends that have reshaped the structure and operations of global financial markets—and exposed the limitations of the current regulatory structures in the U.S. and other countries.

I. Financial Wealth and Power are Dispersing

From 2000 through 2007, the financial wealth and influence of investors outside the United States rose rapidly—most markedly in Europe, Asia, and the Middle East. By the end of 2007, Europe’s financial markets collectively had outgrown the United States in size, with \$63.5 trillion in financial assets. China’s financial market surpassed those of the UK and Germany to become the world’s third largest. Emerging markets, as a group, are growing twice as fast as developed markets. We project that by 2025 the world will have three key financial markets of roughly equal size: the U.S., Europe, and Greater China.¹

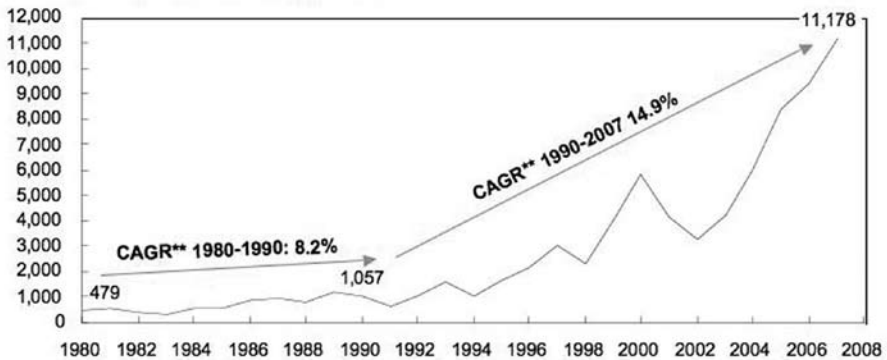
At the same time, the world’s financial markets are more linked than ever before. Global capital flows reached \$11.2 trillion at the end of 2007, triple their size just five years earlier (Exhibit 3). Capital flows have grown faster than trade flows, world GDP, and national financial markets. Today, foreign investors own one in three government bonds around the world, one in four equities, and one in five private debt securities. Even the individual investor who buys only U.S. stocks on U.S. exchanges is paying prices determined in global markets.

Exhibit 3

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Cross-border capital flows reach \$11.2 trillion

Total cross-border capital inflows*
\$ billion, constant 2007 exchange rates



Share of global GDP	4.9	3.6	3.9	5.4	4.4	5.2	4.4	3.9	7.4	7.3	16.1	8.3	13.5	18.5	20.5
Share of global imports	23.1	17.2	18.1	31.5	24.9	27.4	21.1	20.6	34.8	30.6	58.5	32.4	48.5	62.1	72.9

* Due to a discrepancy in data collection, global capital inflows exceed recorded outflows by an average of \$30 bn per year.

** Compound annual growth rate.

This globalization of capital markets has yielded great benefits by fueling economic growth around the world, but it also creates challenges because of its lack of coordinated financial rules or standardized practices. Rising wealth has empowered players who do not necessarily share the traditional U.S. concepts of how markets should operate. Market participants find they can act beyond the reach of U.S. or other national regulators. This encourages investors to operate in the least regulated offshore centers, where they can nonetheless pose risks to more tightly managed markets far away.

II. Rise of Government Investors in Global Capital Markets

The dispersion of wealth has also fueled the rise of government investors—primarily from Asian and oil-exporting countries—as major players in global markets. The foreign assets of Asian and petrodollar sovereign investors reached \$7.4 trillion by the end of 2007 (Exhibit 4). In our base case projection, this amount could exceed \$15 trillion by 2013, making them one-third the size of global pension funds or mutual funds at that time. And this figure does not include the foreign acquisitions of state-owned companies from these regions, which could add several trillion dollars more.

Sovereign investors are a diverse group, including central banks, sovereign wealth funds, government holding corporations, and state-owned companies. They each have different investment strategies. Central banks, such as those in China and Japan, have traditionally invested their reserve assets in highly liquid, safe instruments such as U.S. Treasuries. Many sovereign wealth funds hold more diversified portfolios of investments, including equities, real estate, and stakes in private equity, hedge funds, and other alternative investment classes. Some sovereign investors prefer passive approaches, operating through asset managers or funds of funds, while others take significant direct stakes in companies and private equity firms. This mix of investment strategies means the overall impact of state actors in financial markets should be minimal, as their activities are not concentrated in any one asset class.

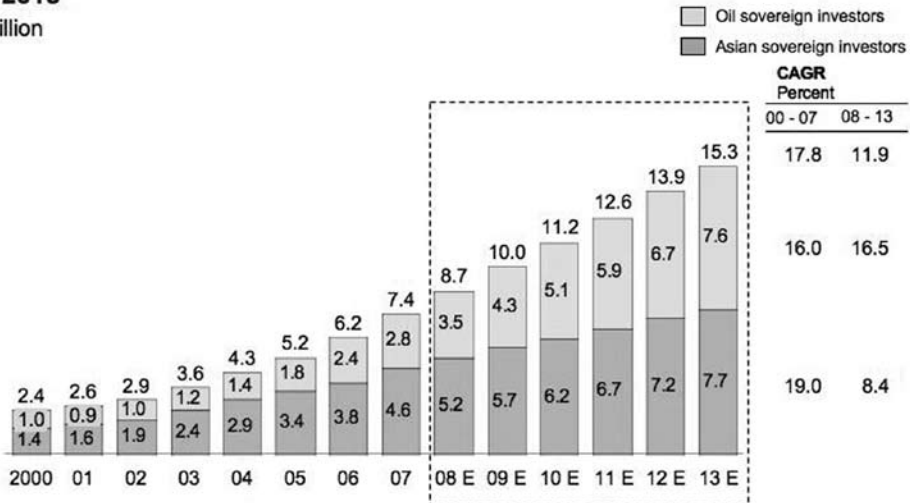
Sovereign investors have undeniably provided significant liquidity to global financial markets in recent years. We estimate that foreign government purchases of U.S. Treasuries have lowered long-term U.S. interest rates by as much as 75 basis points. In the early stages of the credit crisis, sovereign investors from around the world invested more than \$63 billion in Western financial institutions (Exhibit 5).

Exhibit 4

WCO-ZS966-20090114-00

ASIAN AND OIL SOVEREIGN INVESTORS COULD MANAGE \$15 TRILLION BY 2013

\$ Trillion



Note: Sovereign investors include central bank foreign exchange reserves and sovereign wealth fund assets. Assuming 10% allocation of Asian foreign reserves to sovereign wealth funds by 2013 and a 4.41% appreciation rate of sovereign wealth funds

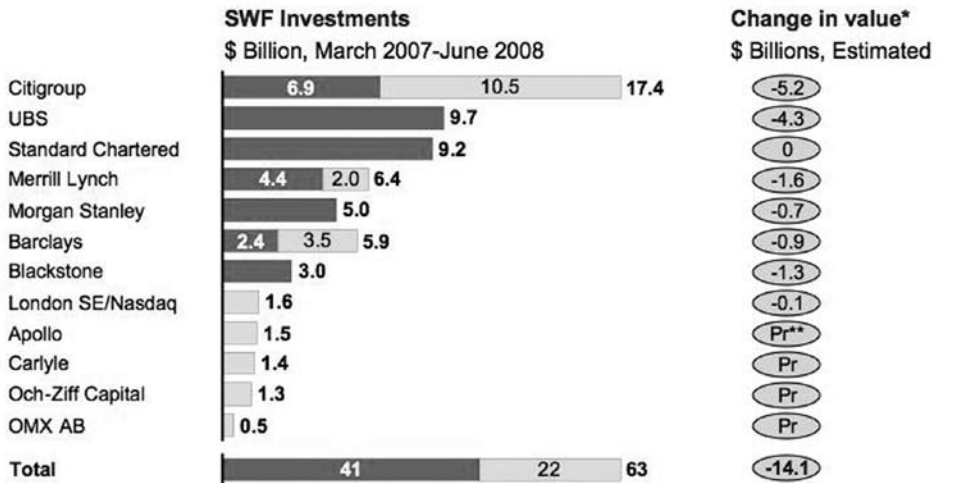
Source: IMF; Global Insight; Institute of International Finance; UBS Asian Economic Monitor; BP World Energy Report; McKinsey Global Institute Cross-Border Investments Database; McKinsey Global Institute Energy Demand Model; McKinsey Global Institute Capital Flows Database McKinsey Global Institute analysis

However, government investors could pose challenges to financial market operations. Most sovereign investors have little transparency regarding their motives, investment strategies, or even size. Financial markets require the free flow of information to function efficiently; the presence of huge, opaque players could muddy pricing signals that other investors need.

A potentially bigger concern is the possibility of non-economic motives driving state-controlled investments. Soaring oil prices in 2007 and early 2008 enriched several countries with policies often at odds with the United States and its allies. By the end of 2007, Russia was the world’s third largest holder of foreign reserve assets, after Japan and China. Mid-tier oil exporters Algeria, Iran, Nigeria, Libya, and Venezuela have become significant foreign investors and some of these petro-powers have a history of mixing business and politics. Venezuelan President Hugo Chavez, for instance, openly sought to use that nation’s oil wealth to advance his political agenda, and Russia has cut off natural gas supplies to Ukraine during disputes in January 2006 and 2009.

Exhibit 5

SOVEREIGN WEALTH FUNDS INVESTED \$63 BILLION IN WESTERN FINANCIAL INSTITUTIONS



Note: Numbers do not add up due to rounding

* Estimated based on change in price of common stock from first day of month when transaction took place and June 2, 2008; in the case of Blackstone, change in price from IPO to June 2, 2008.

** Pr denotes private companies that do not trade in public markets. OMX AB went private due to transaction.

Source: Dealogic; Datastream; press reports; McKinsey Global Institute analysis

III. Growth of Private Pools of Capital that Offer an Alternative to Public Markets

The rise in global wealth has also fueled an increase in financial activity taking place outside publicly traded and regulated markets. Until the sharp escalation of the credit crisis in September 2008, companies seeking funding had found new alternatives to selling equities or issuing debt. Instead, they sought direct infusions from very large pools of private capital, such as SWFs, private equity funds, and hedge funds. Both private equity firms and hedge funds are lightly regulated financial intermediaries that invest the money of wealthy individuals and institutional investors—such as pension funds, foundations, endowments, insurance companies, and, increasingly, SWFs.

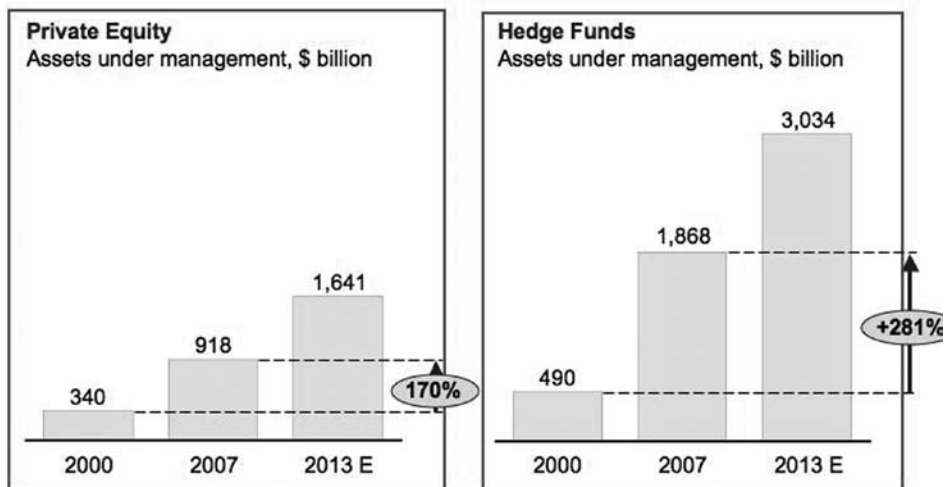
Private equity firms had attracted \$900 billion of investors’ assets at the end of 2007, triple their size in 2000 (Exhibit 6).² Hedge funds’ assets under management grew to \$1.9 trillion. After including the leverage they use to enhance returns, the

gross investments managed by these investment firms may have totaled \$7.7 trillion (\$2.7 trillion for leveraged buyout funds, and \$5 trillion for hedge funds) by the end of 2007.

Exhibit 6

WCO.ZZ5998-20090114-03

PRIVATE POOLS OF CAPITAL ARE GROWING RAPIDLY



Source: McKinsey Global Institute

Indeed, private financing pools provide considerable benefits. Companies in need of restructuring can often do so more easily with private ownership that takes a long-term view, rather than focusing on quarterly results. And companies needing to recapitalize often can obtain funding more quickly and easily from private sources than public issues. In the early stages of the financial crisis, from mid-2007 through the first half of 2008, many of the major banks and investment banks sought and received large, direct capital injections from SWFs, pensions, and a handful of wealthy private investors. This initially helped contain the crisis by helping the banks stay solvent and preventing the damage from spreading. In early 2008, banks also started repairing their balance sheets by selling their distressed debt to private investors, including private equity funds and hedge funds. Private

equity funds announced \$84 billion in new distressed debt funds in the first quarter of 2008, more than triple the total in all of 2007.

However, private pools of capital can also pose systemic risk. By mid-2008, some observers estimated that the shadow financial system operating off banks' balance sheets and beyond the scrutiny of most investors and regulators had grown about as large as the entire regulated banking system.³ And as the financial crisis has shown, turmoil that begins in the private realm can quickly spread to the public sphere. Moreover, the same leverage investors use to enhance their returns in good times can magnify their losses in bad times, contributing to market volatility. Several multi-billion dollar hedge funds were rapidly forced to shut down over the last year, as falling asset prices and leverage worked against them.

Current Regulatory System Must Evolve to Meet These Challenges

The existing U.S. financial laws and regulatory agencies evolved piece-meal over the last 100 years, with new structures attached to old ones in response to particular crises. The Federal Reserve, for example, was created by Congress in 1913 in response to a series of financial crises. The federal deposit insurance system was established in 1933 in response to bank bankruptcies during the Great Depression. The Sarbanes-Oxley Act was enacted in 2002 in response to a series of corporate accounting scandals. The result is an outdated hodge-podge of national and state oversight systems with multiple redundancies and gaps in its coverage.

The U.S. government includes separate regulatory bodies for different financial services, such as commercial banking, insurance, securities trading, and commodities and futures. Banks, for example, are regulated by four different federal agencies and more than fifty state overseers. The U.S. Securities and Exchange Commission oversees stock and bond markets, but the U.S. Commodity Futures Trading Commission oversees the stock and bond futures markets. No agency oversees the market for the derivatives tied to those stocks, bonds, and futures contracts. And no single regulator possesses all the information needed to monitor systemic risk, or the power to coordinate policy across agencies. This system enabled the rapid growth of sub-prime lending and securitization that resulted in the current crisis.

Clearly, policymakers should streamline the U.S. regulatory system to eliminate this duplication and close the loopholes that gave rise to the credit crisis. But they also need to look beyond fixing the old system and toward creating a new framework that will enable capital markets to grow, evolve, and thrive in the future.

To succeed, policymakers will need to think differently about the financial world in three key ways: in terms of global, rather than national players; in terms of new

government investors; and in terms of private financing sources as well as public markets. Here, we discuss the limits of the existing financial regulatory apparatus in coping with these challenges and the questions policymakers will need to answer to find the right solution.

I. The Dispersion of Financial Power Exposes the Limitations of National Regulatory Systems in a Time of Global Capital Markets

The U.S. financial regulatory system evolved over the past century during many decades of largely closed national economies and markets. Policymakers gave little thought to coordinating their regulatory approach with those of other countries or learning from others' experiences. But in today's rapidly globalizing financial markets, this regulatory approach is inadequate.

The lack of coordination with other major countries on financial market regulation and standards creates significant costs for global banks and other financial intermediaries. By some estimates, the added cost of complying with the different national securities regulations in the U.S. and Europe approaches \$50 billion per year. The total global figure is undoubtedly far higher.

Moreover, several unique aspects of U.S. regulations put U.S. financial markets at a disadvantage. A McKinsey survey of financial service industry experts in New York reveals many of the areas in which U.S. standards are out of sync with others in the world. U.S. Sarbanes-Oxley accounting requirements raise companies' cost of raising capital in the United States. Proposed changes to the Basel II standards—agreed upon by numerous international bank supervisors and central bankers—could put U.S. banks at a disadvantage. And U.S. GAAP accounting practices require more documentation and different accounting methods than international accounting standards. Market participants can choose to avoid the costs associated with these regulations by shifting their activities to off-shore, lightly regulated, and low-cost corners of the global financial system.

Rationalizing the international mix of conflicting regulations so capital can flow smoothly to the most productive uses will be no small task. The parties involved need to identify which financial practices should be standardized internationally, and which should be determined by national or even state governments. In which areas is full harmonization of regulations necessary, and where would a significant progress towards convergence be sufficient? Should countries instead agree to recognize other countries' regulatory standards as equivalent to their own, as U.S. and EU policymakers are now pursuing in some areas? Which institutions might be best equipped to set global regulatory standards, and how can national governments be persuaded to adopt the standards without revisions?

II. The Existing Regulatory Systems are Ill-Equipped to Deal with Sovereign Investors

The rise of state investors poses complicated challenges for policymakers because it mixes financial market, geopolitical, and broader economic issues, adding another dimension to foreign relations.

The U.S. policy response so far has given conflicting signals to sovereign investors, reflecting overlapping authorities and a lack of consensus among regulators. For instance, the U.S. Treasury body tasked with evaluating the national security implications of foreign investment—the Committee on Foreign Investment in the United States, or CFIUS—drew objections from Capitol Hill in 2006 when it approved the transfer of several U.S. port operations from a British company to one controlled by the government of Dubai (the Dubai company later sold the U.S. assets to a private U.S. company). Members of Congress also objected in 2005 to the proposed sale of Unocal to CNOOC Ltd., a company controlled by the Chinese government; CNOOC withdrew its offer, citing “political opposition.” Yet in the winter of 2008, members of Congress welcomed cash injections from SWFs and foreign individual investors into struggling Wall Street firms. Foreign government investors are understandably confused or put off by such conflicting signals—to the detriment of the United States.

To craft a more coherent and appropriate regulatory response, U.S. policymakers will need to distinguish between different types of sovereign investors and the different types of investments they make. More transparency on the part of the funds will help. Treasury and IMF officials have worked over the past year with several sovereign investment fund managers to address the transparency issue. But many questions remain: What should the disclosure requirements be, if any, for sovereign investors? Should they differ from requirements for other large pools of private capital, such as private equity and hedge funds? Should these requirements vary according to the investments they make—for instance, should purchases of minority stakes in companies be subject to different guidelines than outright acquisitions? Should the funds’ investment aims and portfolios be publicized to the world, just to other governments, to their own direct shareholders, or to some other audience? How would disclosure requirements be monitored and enforced, and by whom?

Beyond transparency, U.S. policymakers need to regulate sovereign investments in a coordinated fashion to avoid giving conflicting signals. Foreign investment in the United States is critical for funding its large trade deficit and creates thousands of jobs for Americans. Sovereign investors could have \$15 trillion in assets in just five years, representing a pool of capital that the U.S. cannot afford to ignore. U.S.

policymakers should carefully assess the national security implications of sovereign investments and avoid rash assumptions. In making these decisions, policymakers should ask themselves: Would the U.S. government respond differently to a foreign policy issue involving a country that has major investments in U.S. companies or financial assets? How could large positions in U.S. companies or in particular dollar-denominated asset classes actually be wielded as weapons against the United States? What is the maximum damage that could be done by a sudden sell-off by foreign investors and what tools does the U.S. have at its disposal to respond? Separating facts from fears will aid in this debate.

III. Existing Regulatory Systems Fail to Oversee the Growing Financial Activity Taking Place Outside of Publicly Traded and Regulated Markets

Hedge funds, private equity firms, and wealthy individuals controlled much smaller pools of capital in the 1980s and 1990s, and thus had less impact on the overall financial system. And because these pools were restricted to wealthy individuals and institutional investors, financial regulators assumed the investors were sophisticated enough to understand the risks inherent in these investments. Now, many of the individual private equity and hedge fund firms are large enough, and so intertwined with the regulated players, that they can have a major impact on markets and even pose systemic risk.

These private pools of capital fall largely outside of the sphere of financial market regulators. Until credit markets froze up in late 2008, large amounts of funding and maturity transformation—the use of short-term funding to finance long-term loans—occurred outside the regulated banking system and money markets. This included the activities of hedge funds and structured investment vehicles (SIVs) through the asset-backed commercial paper market.

The crisis has highlighted many of the dangers posed by new financial innovations that fall through regulatory cracks. New products at the heart of the turmoil—such as collateralized debt obligations, credit default swaps, and other complex derivatives—had evolved more rapidly than both the market participants' risk management systems and individual nations' regulatory systems. These products escaped regulatory scrutiny, yet proved to be sources of global systemic risk. The financial world learned all too painfully how home foreclosures in Nevada can cause bankruptcies in Norway.⁴

Policymakers need to ask whether and how to regulate these growing private pools of capital and the new financial innovations they drive. How can regulators

minimize the systemic risks they pose without sacrificing the benefits they yield—such as their ability to provide large amounts of liquidity in an emergency, market resilience, financial innovation, and risk dispersion? To what extent is more disclosure appropriate, and to whom should disclosure take place? How can regulators create sufficient incentives for banks to help limit the leverage that these private players take and better monitor counterparty risk? What role can or should self-regulatory organizations play in monitoring these entities?

Recommendations

Addressing these challenges and answering these questions in detail will take time and effort. Forging a consensus both domestically and internationally will be difficult. As a starting point, we offer four specific recommendations that serve as aspirations for the much needed regulatory reforms.

1) Create a new template for a U.S. financial regulatory system that goes beyond patching the current hodgepodge of institutions.

Start fresh, design a new financial system from scratch to meet today's evolving needs. Don't be constrained by the legacies of existing agencies or their mandates. Eliminate the overlap and cover the gaps. Policymakers must first identify the goals of financial market regulation and a desired end state, and then map out a realistic transition plan for moving toward them. Incremental changes to the current structure will not be enough.

At the highest level, financial system regulation must accomplish at least three objectives: ensure financial market stability, protect consumer interests, and oversee the operations of financial institutions that are federally insured. The goals of the new individual regulatory bodies or body should directly mirror these objectives. The Treasury Blueprint for Regulatory Reform⁵ makes a good start by listing three regulatory bodies that would streamline some of the overlap and cover gaps in the current system. But the United Kingdom's single regulator, the Financial Services Authority, is also a model worth considering. In any case, every regulator must have appropriate oversight authority with respect to all relevant market participants and be granted adequate enforcement powers.

2) Identify a path toward greater harmonization of international financial rules and practices. In the past, U.S. financial market

regulations have mainly been created with only U.S. institutions and markets in mind, with little thought—if any—given to how these regulations fit into a global context. This approach is long past its usefulness. In creating a new financial regulatory structure, the U.S. must first consider the global context, and then how the U.S. fits into today’s rapidly evolving markets.

The goal should be eventual harmonization of the key financial market rules and regulations across countries, even if the specifics of how to get there remain open to debate. Options include mutual recognition of existing regulations and standards, movement towards convergence, or full harmonization. In reality, different aspects of reform will probably require different levels of harmonization. The Financial Stability Forum (FSF) has recommended several steps toward better international coordination, and these should be acted on.⁶

Eventually, the world needs to accept one or a handful of bodies that create global regulatory standards, much as the Bank for International Settlements currently does for capital requirements of banks. Possible candidates for this role include the FSF, the Bank for International Settlements, and the International Monetary Fund (IMF), or possibly new bodies that incorporate representatives from the financial services industry. Although the task of achieving international agreement on regulatory issues can appear politically daunting, there are many encouraging models of international financial cooperation, including the Basel accords and the World Trade Organization.

- 3) **Policymakers must develop explicit rules and guidelines for government investors.** In the past, different U.S. government bodies have had varying responses to actual and proposed investments in the U.S. by sovereign investors. The recent efforts by the Treasury and the IMF⁷ to work with SWFs to develop codes of conduct and disclosure will help improve our understanding of the objectives of these players and give recipient nations comfort; they are steps in the right direction. Now the U.S. must move to clarify its rules for the range of sovereign investors—central banks, state-owned companies, and other quasi-government entities—not just SWFs. Each of these types of investors may prompt different policies and rules; the rules may also vary according to the size and type of investment made and by the sector of the economy. Nevertheless, all government investors deserve clarity about the rules and consistency in their application.

- 4) **Regulators must strengthen shareholder protection rules in light of the growing role of government investors, private equity, hedge funds and other large private players.** A government that holds a stake in a company may be tempted to put its citizens' interests ahead of those of other shareholders. A private equity firm that owns part of a company might pressure management into actions that benefit the firm's investors more than the company's other shareholders. The lucrative compensation packages offered to current management could create an incentive for management to underprice the company before its sale, to the detriment of current shareholders. Regulators need to reassess and restate the nature of shareholder obligations in these new contexts, ensuring that contracts provide appropriate shareholder protection to all shareholders and clarifying that government investors, private equity, and others must act as institutional investors seeking a fair market return on their investments. This may involve more scrutiny of and disclosure by such players. It may also entail strengthening the legal recourse shareholders have if their official rights are violated.

A Call to Action for the Obama Administration

Smoothly functioning, efficient capital markets are essential. The United States has a particular interest in ensuring that global financial markets continue to operate effectively. The financial sector in the U.S. employs millions of workers and is an engine of innovation and productivity growth. U.S. companies and investors have acquired \$15.4 trillion in foreign investment assets—more than any other country. And the United States needs to attract large net foreign capital inflows to finance its growing current account deficit, which totaled \$709 billion in 2007, equivalent to 6.5 percent of GDP.

The right policy responses to the challenges outlined here will benefit the United States and the world. But before policymakers rewrite the regulations and reinvent the institutions, they will have to update their own thinking. Too much of the discussion so far has reflected a view of the financial world as it was in the past, rather than as it is evolving today. The United States cannot stop the dispersion of financial power we have described, nor should it try. The U.S. markets and economy largely benefit from the financial and economic growth occurring around the world, and U.S. policymakers should encourage development that helps lift living standards elsewhere.

This means U.S. and other Western government and business leaders cannot assume that other financial systems will evolve to mimic their models. Sovereign

investors will play a bigger role in global capital markets and will not necessarily follow the same rules traditionally imposed on private companies and individuals. Other new players—such as hedge funds and private equity—will share the financial stage with companies and governments. Companies will continue to find new sources of financing outside of publicly traded and regulated markets. And the U.S. government will not be able to dictate the answers—U.S. officials will have to work with other governments and with business leaders to craft solutions that will both protect investors and allow global markets to flourish. But they won't succeed unless they all grasp how the game is changing.

The Obama administration will have an historic opportunity to create a new financial architecture that can meet the challenges of today and tomorrow. The credit crisis, for all the pain it is causing, has opened the door for bold reforms that go beyond merely tinkering at the edges of the current set of institutions. Policymakers can meet these challenges, but only if they acknowledge the changes underway and act on them.

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¹ Includes China and Hong Kong.

² This figure includes leverage buy-out funds only. An additional \$400 billion in assets are in other types of private equity funds, such as venture capital funds, mezzanine funds, and infrastructure funds.

³ Timothy F. Geithner, President and Chief Executive Officer of the Federal Reserve Bank of New York, "Reducing Systemic Risk in a Dynamic Financial System" (remarks delivered to The Economic Club of New York, New York, NY, June 9, 2008).

- ⁴ Julia Werdigier, “Subprime Scandal Is Bankrupting Norwegian Brokerage,” *New York Times*, November 29, 2007.
- ⁵ U.S. Department of Treasury, “Blueprint for a Modernized Financial Regulatory Structure,” March 31, 2008. Available at: <http://www.treas.gov/press/releases/reports/Blueprint.pdf> (accessed February 3, 2009).
- ⁶ Financial Stability Forum, “Enhancing Market and Institutional Resilience,” April 7, 2008. Available at http://www.fsforum.org/publications/r_0804.pdf (accessed February 3, 2009).
- ⁷ U.S. Department of Treasury, “Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi,” press release, March 20, 2008. Available at <http://www.treas.gov/press/releases/hp881.htm> (accessed February 3, 2009).

“...at a time when the rising powers are flexing their economic muscle but not yet prepared to take on the burdens of global leadership, the need for the United States to provide leadership continues undiminished.”

—LAEL BRAINARD, DAVID LIPTON

Can America Still Lead In the Global Economy?*

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“Leadership and learning are indispensable to each other.”

– John Kennedy (remarks prepared for Nov. 22, 1963)

The Need to Lead

From the vantage point of 2008, some of the most memorable initiatives of U.S. international economic leadership—the Paris and Louvre Accords, the support for Poland and Russia after the fall of communism, the Uruguay Round, and the Mexican Financing Loan—seem like quaint reminders of a simpler time. In the coming years, the exercise of international economic leadership will surely prove more complex than in the past. The very success of the American vision of a global spread of vibrant and competitive markets has created a huge, rapidly integrating private economy of trade and finance much less amenable to guidance, let alone control, by governments. Unlike in diplomacy and defense, where non-state actors are growing in importance but are still one of many subplots, in international economics most of the cast of characters—households, corporations, labor unions, and non-profits—are non-state actors. While they respond to national laws and policies, their interests are varied and their operations often span borders.

And while uni-polarity may still be debatable in the security realm, multi-polarity is a reality in the economic realm. Following thirty-five years in which the share of world output commanded by the G7 leading economies remained stable around sixty-five percent and the so-called BRIC (Brazil, Russia, India, China) economies around seven percent, in the past five years, the BRIC share has risen to over eleven percent and the G7 fallen to fifty-eight percent, and by 2030, the two groups will be converging towards parity at around one-third of world output each, according to Brookings scholar Homi Kharas. The rapid growth of the rising powers is creating enormous opportunities but also putting considerable strain on resources from food

*This paper was authored in July 2008

to water to energy, just as humanity is waking up to the urgent need to wean our economy from its centuries-long dependence on carbon. Growing global integration also creates growing interdependence and mutual vulnerability. To borrow a phrase from the recent banking crisis, we are now all too interconnected to fail. Threats to growth and stability now reverberate broadly, whether from financial market excesses, food shortages, pandemics, or vortexes of conflict and poverty.

At this moment of consequential challenges that even the most powerful nations cannot resolve on their own, there is greater need than ever before for leadership to help manage growing international economic linkages. And at a time when the rising powers are flexing their economic muscle but not yet prepared to take on the burdens of global leadership, the need for the United States to provide leadership continues undiminished.

But while the need for U.S. leadership in the global economy is clear, the capacity is less so. How well prepared are we to lead—especially when it will require doing so through cooperation and persuasion and by example? How prepared are our political leaders—especially when many Americans believe they are victims rather than beneficiaries of global competition? The remainder of this paper will explore the changing context for U.S. international economic leadership, review our economic goals, and discuss the adequacy of the instruments available for pursuing those goals.

The Global Economy: Seven Challenges

If the United States is to rise to the leadership challenge, we will need to have a clear-eyed view of how the global context is changing:

1. Dispersion of Economic Power

The rest of the world no longer depends on the United States as the engine of global growth as in the past. The emerging market countries are booming, integrating into the global economy, and learning to assert their interests more forcefully. Europe, with \$17 trillion in 2007 GDP (before the recent rise of the euro) is a formidable economic bloc and a complex political unit with which to interact. The U.S. economy is now about one-fourth of the global economy, a fraction that is falling. Although in reality most major economies are deeply coupled rather than decoupled through multiple transmission channels, the sheer size and vibrancy of demand from emerging market economies are large enough to propel the global economy even when the U.S., European, or Japanese economies falter—though not if they fail.

The changing pattern of national income shares is emblematic of a growing global dispersion of wealth and economic dynamism. In contrast to the shift of the world's financial epicenter from the city to Wall Street in the interwar period, stock markets and commodity exchanges are currently proliferating in multiple financial centers. In 2006, eighteen of the twenty largest IPOs took place outside the U.S. and were spread out among eleven exchanges. Indian and Brazilian multinationals are grabbing the headlines each day with major acquisitions of flagship European and North American brands. And whereas the IMF provided \$20 billion (in today's dollars) of official financing to stabilize Asian economies in the last quarter of 1997, a decade later sovereign wealth funds from many of the same Asian economies and their resource-rich suppliers provided \$30 billion in capital to shore up shaky financial companies in the United States and Europe.

While the rapid growth of the middle class in countries such as China and India is helping to fuel the global economy, it is also contributing to a broad commodity price boom that is further redistributing wealth globally and contributing to global inflationary pressures. Growing demands for grains both for feedstocks and biofuels have led to an astonishing reversal of decades of progress on food security with attendant risks to political stability.

2. Diminishing Power of Policy

The size, complexity, and integration of capital markets are complicating economic policy management. The proliferation of new financial instruments and institutions is proceeding faster than the regulatory apparatus can adapt, impeding our ability to preserve financial stability. The size of private financial holdings and flows dwarfs the resources that the U.S. government and its official partners (including the international financial institutions) can deploy to stabilize exchange rates or other key asset prices. Moreover, financial markets blanketing the globe are responding instantaneously and continuously to news and public policy pronouncements, leaving little time for planning and execution and razor thin margins for error, and leading to the conundrum that while U.S. and other officials have unprecedented power to move the markets (witness the swings that follow minor recalibrations of message by Chairman of the Federal Reserve Bernanke), they are practically powerless to sustain those movements unless their statements reflect meaningful policy action (e.g. the Fed's ability to alter short-term interest rates). Official

cheerleading with no policy behind it is more likely to undermine credibility than achieve any meaningful change.

3. The Inflation-Recession Conundrum

The global macro-economy will continue to be buffeted by inflationary and contractionary forces in the coming years, leading many countries to be self-protective and less receptive to collective initiatives. With no quick fix in sight, the housing and banking sector crises that are slowing growth in the United States and Europe are likely to sap economic vitality for years. The sharp and broad commodity price increase is helping commodity exporters, but hurting importers while posing a dilemma for monetary authorities. Some countries are reluctant to react forcefully to rising inflation for fear that slowdown is around the corner, while others are reluctant to react to slowdown for fear that inflation will take hold.

4. The Anti-Washington Consensus

Economic orthodoxy peaked in the 1990s and is unlikely to return to fashion anytime soon. Quite apart from rising resentment about the United States—itsself an important matter—skepticism has grown over the liberalization agenda, once loosely shorthanded as the Washington Consensus. China's heterodox growth model is enjoying considerable allure in light of its stellar performance and governments have come to power in emerging markets on the basis of a wide range of different economic policy platforms. Indeed, it is remarkable that macroeconomic policymaking has remained so orthodox in so many countries. Lula, the AKP, and the ANC are all running budget surpluses, probably reflecting the still-fresh scars of the stabilization crises of the 1980s and 1990s. But in many countries an embrace of liberalization and integration in the microeconomic realm has fallen out of favor.

Moreover, the ongoing banking and capital markets turmoil will likely color global attitudes on financial market liberalization for years to come. The proliferation of aggressive lending practices and innovative financial instruments in the United States and Europe sparked a run on credit and credit products, producing record losses in banking institutions and a slowdown in the macro-economy. Most of the emerging market world was spared direct damage chiefly because their countries were beyond the pale of settlement of

the financial engineers. Officials and market participants in those countries will be reluctant to heed calls for untrammelled financial sector liberalization for fear of importing what might be termed “mad banker” disease, at least until we show that our regulatory system is capable of maintaining financial stability.

In short, the days when U.S. official entrée and clout came from the prospects of some advice and an IMF loan are mainly gone. Most emerging market countries have been managing their domestic economic policies far better than ever before, after suffering instability in the 1980s and 1990s. With public finances strong after years of strong global growth and better policies, the threshold for a public debt problem arising from either domestic or international shocks is much higher and the need for external official support programs are far less likely than in the past. And with the officials running the finance ministries of emerging market countries in many cases as talented and experienced as anywhere, they are more likely to provide meaningful and valid critiques of U.S. views and policies than to seek guidance. (That said many countries are pursuing exchange rate and macro policies that seem ill-advised even from their own standpoint, so there is ample reason for the United States to engage them.)

Related, we are likely to see more private sector distress, which will be less amenable to official action. The dismantling of interventionist subsidy schemes, the privatization of banks and non-financial corporations, and the adoption of more flexible exchange rate regimes (not to mention the accumulation of record foreign exchange reserves) all help take public finances off the front lines of economic conflict. In this setting, adverse economic and political events that push around market prices and affect the cost and availability of capital will in the first instance hit the private sector. We are beginning to see the impact of food and energy price increases and the impact of stock, bond, and housing price declines on households and companies in emerging market economies. Depending on governments’ reactions, we will either see a period where private sector distress sets the context for the global macro-economy, or where renewed subsidization by governments eventually erodes public sector finances. The U.S. should be prepared to cope with both situations.

5. The Pause that Retrenches

Growing integration on the real side of the global economy is similarly complex. While trade ministers sign all manner of bilateral and mini-lateral trade agreements, and global trade flows are going gangbusters, multilateral and major regional trade negotiations are going bust. A newly assertive group of developing countries has been effective at blocking any deal offered by the rich countries, but this group has yet to find sufficient common ground to forge an agreement. Meanwhile, as trade ministers dither, entire swathes of economic activity are going global through the click of a mouse rather than the signing of a treaty—subjecting entire occupational categories to stiff foreign competition for the first time. This off-shoring of services and a dramatic twenty percent decline in manufacturing jobs over the past five years have contributed to a growing distrust of trade among an ever broader segment of the American public, leading to unprecedented single-vote margins for trade deals during a period of unified Republican rule. Meanwhile, there has been wholesale neglect of key domestic policy priorities central to restoring American’s confidence in competing globally, such as innovation and infrastructure policy, healthcare reform, training, unemployment insurance, and wage insurance.

6. Aid Not Trade

While polarization has grown on trade, convergence has been the order of the day on global development—at home and around the globe. In the U.S., the evangelical community joined popular culture celebrities and NGOs to advocate successfully first for debt relief and subsequently for massive funding for HIV/AIDS and more modest gains in areas such as malaria and primary education. In parallel, recognition has grown in U.S. military and foreign policy circles that as we prepare for a world where seemingly distant threats can metastasize into immediate emergencies, the fight against global poverty is becoming a fight of necessity—not only because personal morality demands it, but because national security does as well. These two converging strands have helped provide the biggest boost to foreign assistance in decades along with a proliferation of uncoordinated institutional arrangements to administer it.

7. A Changing Climate for International Finance, Trade, and Development

Looking forward, every one of these challenges will be further complicated by the belated and patchwork attempts to mitigate and adapt to a changing climate. A fundamental transformation of the economic paradigm away from the carbon foundations of the past nearly two centuries will require intermediation of vast global flows of technology and capital. And to the extent that rich countries move much faster than developing countries to impose a tax or a cap on carbon, there will be pressure to deploy trade mechanisms to address competitiveness concerns. In addition, introducing an effective global carbon tax or cap would throw into doubt the manufacturing export-led development strategy that has proven to be the quickest road out of poverty for hundreds of millions without providing a viable alternative path. Poverty reduction approaches, too, will require a fundamental rethink. For those poor countries on the front lines, development interventions must be redesigned to help insure against, plan for, and build resilience to the contingencies climate change will bring.

U.S. Leadership: Seven Objectives

To set the stage for a discussion of the instruments available for the exercise of U.S. international economic leadership, it is helpful first to review our goals. At a basic level, our key international economic goals remain:

- To promote prosperity for all Americans by making the most of the positive-sum game opportunities afforded by the global economy.
- To stop globalization from transforming into a negative-sum game by taking action to prevent economic, financial, climate, and security instability from undermining the global economy.

Of course as one elaborates those goals into specific actionable objectives, greater complexity and room for significant policy disagreement emerges, particularly between those objectives that advance American interests directly and those that advance them indirectly through greater stability and prosperity abroad. Rather than address all of the many extant issues in international economics, here is an annotated list of objectives to support our goals:

1. Promote Resilient, Adaptable Systems to Facilitate Global Flows

Without minimizing the difficulty, progress will require ensuring that the gains from the growth of global markets are believed to be shared widely by a much broader group of Americans while also balancing the many competing interests of all trade partners and incorporating environmental and labor issues into agreements. To strengthen legitimacy, the rules must not only be signed but also enforced. And the rules governing global commerce will need to keep up with the dynamism of the market itself. To make significant progress, we will have to take on the complex issues around agriculture and commodity subsidization worldwide. Increasing attention will also need to be devoted not only to the quantity but also the quality of trade worldwide to ensure the integrity of global supply chains and guard against risks to health, safety, and the environment.

2. Restore American Confidence to Compete Globally

Americans feel most secure about global engagement when they are well equipped to compete and have some insurance against economic risks. The backlash against globalization in recent years stems in part from perceptions that trade and off-shoring have surged forward at a time when the domestic foundations of competitiveness and social insurance have been neglected, leaving families and businesses to shoulder a disproportionate share of risks and investments. This agenda, again easier to elaborate than execute, includes investments in economic competitiveness—lifelong learning, innovation, infrastructure—while at the same time developing effective and portable insurance systems for unemployment, health, pension, and wages to provide some degree of economic security in the face of job dislocation.

3. Encourage Capital Market Development and Integration Alongside Regulatory Enhancements

While further gains would likely follow from a more efficient allocation of global capital, acute sensitivities will remain regarding the stability of an interconnected global capital market and the implications of cross-border ownership, particularly by sovereign wealth funds. Progress on liberalization will depend on the success of regulatory reform to make our balkanized and outmoded U.S. regulatory system as modern as our rapidly evolving markets and promote comprehensive regulation of internationally active financial firms.

4. Promote Economic and Financial Stability

If we experience a persistence of slowdown, banking sector problems, and commodity price disruptions, as seems likely, the United States will have to place a greater emphasis—than in the past five years—on promoting strong global growth and low inflation. Those efforts could involve policy dialogue or explicit coordination. There is also a heightened risk, given the ongoing banking turmoil, that institutional failure in the financial system might create the need for significant clean-up efforts, possibly involving the appropriation of significant public funds for rehabilitation or recapitalization. The technical and political complexity of such a task would be considerable and could require international coordination. In the European Union, where the so-called single market does not extend to banking, some subset of the twenty-seven national regulators and finance ministries could have to act together and we would need to work with them to contain the global fallout that could ensue. Nor can we lose sight of the link between security threats and economic stability. As we have seen recently, mere rumors of conflict with Iran move commodity and financial markets, reinforcing global strains. Economic and security policymaking should weigh those interactions when assessing what is at stake for the United States.

5. Promote Standards and Codes for Good Global Citizenship

Some Americans' concerns about globalization reflect resentment that governments of systemically important economies continue to pursue narrow self interest, leaving us to bear too much responsibility and cost for the health and stability of the global system. There are concerns that other countries take advantage of supplies of scarce commodities, manipulate currency values, threaten to dump financial instruments for political purposes, deploy sovereign wealth fund investments to gain political advantage, and will ignore the environmental and climate impact of their economic policies. U.S. international economic policymakers will need to work with other countries through international and regional fora to secure adoption and monitoring of standards of good global citizenship. Thus, for instance, concern over the rise of sovereign wealth funds (SWFs) could in part be addressed by international investment standards that provide for clear rules and processes governing host country investment oversight, such as the Committee on Foreign Investment in the United States (CFIUS) process, in return for transparency and disclosure on the part of SWFs, as well as commitments by

key trading nations to modify the exchange rate policies that are feeding the vast buildup of reserves underlying some SWFs.

Nonetheless, in dealing with SWFs, we will have to reckon with two sobering realities. First, we need to accommodate the recycling of financial surpluses being accumulated in SWFs by the oil exporting countries and the Asian countries with huge balance of payments surpluses. We can perhaps influence the form of the recycling, but we cannot block recycling without dire consequences, not the least of which would be higher interest rates and the decline of our financial system. Second, we will have to maintain suitable relations with the SWFs via their governments in order to be ready, if need be, to have emergency discussions with them in a situation in which a threat to financial stability arises and the investment behavior of the SWFs is critical to the maintenance of stability because of the scale and concentration of their funds. In doing so, we will certainly empower SWFs and their governments, not to mention provide an incentive for countries to accumulate national wealth in state institutions. In some cases, that will mean empowering governments with which we have conflicts, and more generally that empowerment will contradict our basic value of private savings and ownership by individuals.

6. Take Action to Address Global Sustainability

Along with the medium-term goals of promoting growth and stability, we also need to work on the longer-term challenge of forging a global consensus on how we will share an increasingly crowded planet. The big issues to tackle include the strains of global population growth, environmental damage, the alleviation of extreme poverty, and the climate crisis. The latter will require mustering the political will to take meaningful action on climate at the national level while also working to forge international agreement so that markets and regulatory policy provide a consistent set of incentives to move away from carbon intensive methods of production and transport. It will require a delicate balance of suasion and pressure to induce the fastest growing emitters to take action in the face of concerns about growth. It will require large transfers of assistance and financing to help the most vulnerable nations adapt. And it will inevitably risk trade frictions as competitiveness concerns come to the fore in countries that take on obligations ahead of their trade partners.

7. Make a Long-Term Commitment to Global Development

Promoting development in the world's poorest nations helps to advance American national interests, security, and values. Investing in the education, health, livelihoods, and security of the world's poorest not only makes Americans feel good about ourselves, but the world feel good about America. It is critical to capitalize on the upsurge of support for global development among the U.S. public evidenced in increased advocacy, service, and individual giving in order to make sustained investments in lifting up the lives of the poor. It is critical to increase not only resources but also the impact of each dollar spent.

The Instruments and Institutions of International Economic Leadership: Seven Reforms

Finally, it is useful to review how well-equipped the U.S. government is from an institutional standpoint to achieve its goals. Our internal governmental structures and the international institutions at our disposal were created in different times for different purposes and, while they have evolved somewhat as globalization proceeds, there are deficiencies we must address. It is instructive to ask if we were starting from scratch whether we would create the existing institutions and processes to address today's key challenges. The answer in a few cases below is a clear no, suggesting the need for reform.

Most legislated responsibility for international economic and development policy is split among the Departments of Commerce, State, and Treasury, as well as the Office of the Trade Representative and the U.S. Agency for International Development. The division of labor among these agencies is relatively sensible and clear (with a few important exceptions), though the need for cooperation and coordination is growing with the complexity of the global economic agenda.

Surveying U.S. government capabilities against the changing international economic landscape highlights a few key reform principles: elevating policy interaction with the rising powers bilaterally and multilaterally, improving policy coordination and joint planning and implementation, strengthening government capacity to address new challenges whether oversight of growing trade and investment flows or complex financial instruments, elevating development and strengthening civilian capabilities, and leveraging the capabilities of the U.S. private and non-governmental sectors.

1. Improving Policy Coordination

The growing complexity and interconnectedness of policy challenges puts a premium on policy coordination. Many international economic challenges require true integration across domestic, economic, and foreign policy lines. For instance, the slow response to the food security challenge reflects in part the separation of domestic farm and biofuels policies, trade policy, development programs, and foreign policy. Meeting the climate challenge will similarly require extensive coordination between domestic, economic, and energy policies designed to achieve climate goals, trade and development policies, international climate negotiations, and foreign policy. And if more Americans are to gain confidence about competing globally, there has to be more robust integration between our domestic competitiveness and social insurance policies on the one hand and our trade policies on the other.

Re-energizing the National Economic Council (NEC) at the White House to facilitate the policy coordination role and provide political guidance seems a logical choice. A trickier question is the role of economic agencies in the National Security Council (NSC) and the division of labor between the NSC and NEC. One sensible approach might be to add an International Economics Committee at the principals level, similar to the deputies level, to function as a *de facto* executive committee. It makes little sense to consider economic and security issues separately at the level of assessing national priorities and setting broad policies. For example, our economic and security approach to China must be jointly designed and executed to avoid inconsistencies that undermine effectiveness. Moreover, to make sensible and consistent policy, economic and security practitioners need to spend time together to have a general grasp of each others' issues and approaches. On the other hand, much of the subsequent, detailed policy formulation can be done by a policy coordination subgroup with specialized membership. There is clearly a need to strike a sensible trade-off between the conceptual integrity of joint decision and the efficiency of specialization, but one that errs on the side of joint action.

An effective policy coordination function spanning the NEC and NSC should also have the responsibility for overseeing development and humanitarian assistance policies. Several recent task forces have highlighted the high cost of current coordination deficiencies and called for both elevation and

better coordination of development, humanitarian, and post-conflict civilian operations (see below).

2. Strengthening Official Relationships with the Rising Powers

The political realm tends to lag substantially behind the fast moving market. Policy processes, personnel, and strategic attention need to be reoriented to the countries who are contributing most to changes in the world economy and to those who post the greatest risks to the global financial and trading systems rather than the established powers. At State and Treasury, this implies promoting or recruiting the most capable people with deep experience with the rising powers as well as developing bilateral and multilateral processes to ensure regular high level engagement and promote cooperation.

Treasury should continue to lead regular, high level, multi-agency, in-depth discussions on issues of mutual interest with China and follow a similar model with a few additional economically significant relationships, such as with India. This will serve to ensure coordination across key policy areas and that these key relationships remain on the radar screen of key principals. It is also critical to develop a set of back channel relationships that keep informal lines of communication open between the more formal meetings, similar to the G8 finance sherpas, sous-sherpas and deputies networks.

Generalizing that same principle to the international realm immediately highlights the growing awkwardness of the G8. The G8 countries represent about three-fifths of global GDP (and falling). Europe has five chairs, which is an imbalance of power (imagine if the U.S. president were joined at these meetings by the governor of California, whose economy outranks a few current members). So, even when the G8 acts (which is rare), the rest of the world resents what it views as a presumption of power. The G20 includes a broader and more relevant representation of the global economy and has the potential to make a major contribution, but it seems too unwieldy to be an executive body or to act in times of crisis. An intermediate size, such as a G13, might strike a better balance between legitimacy and representation on the one hand and effectiveness on the other. Much ink has been spilled for many years on how to form another group. Without adding appreciably to the spilled ink, it will be useful to develop a new forum that will help us promote

understanding, action, and responsible global citizenship. As for particular economic issues, we will soon need a group with global legitimacy to take up the very pressing issue of the inadequacy of exchange rate policies.

3. Raising Our Game on Technical Expertise and Resources

Within departments, resources and staffing are not up to the task of international leadership. The complexity of global banking and capital markets stretches the capabilities of civil and foreign services trained in another era. We are not as constrained as many of our G7 partners, because many political appointees have relevant real world experience and we have more entry and exit in our civil service. But we need to find a way to seed the civil and foreign service with the experience and training required to be effective in the modern global economy. We need to find a way to attract experienced, market practitioners to spend time in the domestic and international side of Treasury. A poll of Treasury staff a year ago would likely have found very few professional staff that could recognize or define an SIV, ARS, or CDO on the eve of their consequential collapse. The size of agency staffs needs review as well. At Treasury, for example, the international affairs staff has less than 150 professionals. And the operating budgets for the agencies need to be reconsidered in an era where information gathering, computerization, communications, and travel are unduly constrained.

The Office of the U.S. Trade Representative benefits from its reputation as a relatively lean outfit. But USTR has been stretched thin with its staff of roughly 250 at a time when the number of trade agreements under negotiation and the volume and complexity of trade flows has grown manifold. Over the past seven years, U.S. trade has grown by over \$1.4 trillion. The WTO has expanded to include twelve new members—chief among them the world's fastest growing nation, which lacks adequate capabilities to enforce even its own safety standards, let alone intellectual property rights. The number of countries with which the United States has concluded free trade agreements has expanded by sixteen, and the scope of those bilateral agreements now extends from investment to services to intellectual property. Yet analysis from the Government Accountability Office points out that fewer than fifty USTR staff are dedicated to monitoring and enforcement. Consequently, the number of enforcement actions is declining rather than increasing as the growing volume and complexity of trade would imply. Related, recent product safety

scars have highlighted troubling deficiencies in inspection capability relative to rapidly growing trade.

4. Elevating and Resourcing the Development Mission

The past decade has witnessed greatly increased support for development and humanitarian missions among the public and the national security community, along with growing bipartisan agreement on priority missions such as HIV/AIDS. During the past several years, foreign aid dollars have doubled. With each new spending priority has come a new ad hoc institutional arrangement to administer it (PEPFAR, PMI, MCC, S/CRS). As a result, an organizational chart of the U.S. government development and humanitarian apparatus now shows fifty separate government units pursuing a plethora of overlapping missions with little coordination and accountability. And the Defense Department now controls roughly one-fifth of foreign aid dollars—a sharp increase over the past six years.

Paradoxically, recent years have seen a systematic weakening of our operational civilian capabilities while responsibilities and disbursements have grown. As a result, there is a readiness deficit in civilian development, humanitarian and post conflict missions, and an urgent need to invest in specialized expertise, which Defense Secretary Gates emphasized in his recent Landon Lecture. Since the 1990s, the number of professional USAID staff has fallen by a third, and by some estimates, nearly one-third of those remaining are eligible for retirement. At a time when the premium is greater than ever on specialized expertise for addressing development challenges, USAID has only five engineers on staff and half of the roughly 1,800 professionals work as generalists.

It is time to elevate development alongside diplomacy not just in rhetoric but in reality. The past decade has tested the model of increasing State Department authority over USAID with disappointing results, culminating in the State/F process, which has been roundly criticized. A 2007 GAO report highlighting serious deficiencies in staffing and skills concluded that the State Department human capital strategy does not adequately address its own foreign assistance responsibilities. It is time to consolidate the handful of core development, humanitarian, and civilian post-conflict capabilities under one strong independent umbrella. There are growing calls to give development a cabinet-level voice, which would ensure a seat at the table for

policy and resource decisions, increase accountability, improve recruitment and retention, and make a strong international statement akin to John F. Kennedy's creation of USAID in 1961 and New Labor's creation of the Department for International Development (DFID) in the 1990s. Many of these reforms can be undertaken using existing executive authorities.

5. Leveraging the Private and NGO Sectors

Recent years have witnessed an explosion of involvement of private groups, including NGOs, advocacy networks, corporations, philanthropists, religious groups, and educational institutions, in many aspects of global economic policy. These organizations bring tremendous capabilities to the table, whether the marketing savvy of advocacy organizations, innovative proposals from universities and think tanks, sizeable investments of philanthropic organizations, logistical and technological capabilities of corporations, or the vast field networks of the big international NGOs. Our government is learning how to interact with these groups on a wide range of issues: economic, social, and political. But too often these interactions are ad hoc. Going forward, the international economic and development apparatus should more systematically leverage the rich capabilities outside government through partnerships and collaborations of many kinds. USAID's Global Development Alliance is a promising model, but there are currently only two or three staff at USAID dedicated to fostering these kinds of partnerships.

6. Improving the Quality of Market Intelligence Securely

Finally, we will need to rethink the quality and security of economic policy information. As the need for international policy discussion and cooperation grows, so does the prospect for leaks of information to market participants. Individuals who obtain insights into government policy intentions through their conversations with government officials will be able to reap huge and near-instantaneous gains. The issues include the security of communications, the trustworthiness of our foreign government interlocutors, and our own discussions with businessmen. On foreign government interlocutors, there is a real risk that governments will pass on information to managers of international reserves or SWFs who will trade on the information. On our own discussions with businessmen, there has always been a need for U.S. government officials to talk to the private sector in order to have the information needed to make good policy. But now, the financial services

sector has a sub-industry focused on divining government policy intentions. In principle, the public-private dialogue should be constructed as what has been dubbed a one-way permeable membrane, where government officials listen, but do not convey information. But that is difficult in practice, as even the questions one asks reveal information.

7. Updating the International Financial Institutions

The international financial institutions have been less and less active as fewer countries need their money. The IMF and World Bank are undertaking a re-examination of their role and business model. The IMF has taken on a global economic surveillance mission and responsibility for a range of codes of good conduct, which are valuable if not central to the functioning of the international financial system. As for its more traditional role of supporting stabilization efforts of member countries, it is possible that problems in the global macro-economy will rekindle a demand for IMF loans, but the risk is that any such set of events in the present capital market setting would pose a financing problem too large for the IMF to handle.

The growing call for the provision of public goods will require the development of new organizations and arrangements for governance and finance. The World Bank has been one place where governance and finance arrangements have evolved in connection with the provision of loans and grants in support of development. It is worth exploring whether the Bank can play a greater role in the provision of global public goods, to take advantage of existing arrangements and the Bank's market financing capabilities.

As we update the roles and responsibilities of the Bank and Fund, it will be critical to revise their governance and management to reflect the shifting economic weights of member countries.

Conclusion

The context for U.S. international economic leadership is in flux as the global economy becomes more complex and enters a troubled time. Yet there is good reason to believe that U.S. leadership can be successful if we are thoughtful and adaptive, willing to change our ways of doing things, and open to true cooperation with other nations. The fundamental drivers of the global economy—savings, innovation, and the absorption of millions of people around the globe into the

market economy—will continue to provide an upside potential that we can hold out as the promise of cooperation. And the innate interdependence produced by globalization raises both the risks and rewards to joint action. Even new powers like China are coming to understand their stake in the orderly functioning of the global economy and in geo-strategic stability. While they may not call for U.S. leadership, they and others will appreciate predictable efforts on our part to manage the risks of the global economy and to ensure the benefits are broadly shared.

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Part **4**

EXPLORING ORGANIZATIONAL PARAMETERS
AND OVERCOMING INSTITUTIONAL GAPS

CHAPTER 9

The White House and Organization for International Affairs

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CHAPTER 10

Discussion Outline on National Security Policymaking and Implementation Structure and Process

Samuel Berger

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CHAPTER 11

Organizing National Security: Barriers and Opportunities

Andrew Krepinevich

President,
Center for Strategic and Budgetary Assessments

“Since the end of the Cold War, White House staffing has increasingly fallen short on the critical need for policy integration. For the sake of the nation, we need to do better.”

— IVO H. DAALDER

The White House and Organization for International Affairs

Ivo H. Daalder*

Senior Fellow, Foreign Policy,
The Brookings Institution

Many of the most important problems confronting the United States today involve multiple policy considerations—both in terms of different functional areas and crossing the foreign-domestic policy divide. An effective counterterrorism policy must integrate foreign policy efforts designed to build international coalitions and reduce opportunities for terrorist ideologies to find new converts; military efforts aimed at eliminating foreign sanctuaries and improving defenses of vulnerable targets; intelligence efforts that collect and analyze information from multiple sources across the globe and at home; and domestic law enforcement efforts that involve actors in the public and private sectors as well as the coordination of international and municipal government efforts and everything in between. The failure to integrate any of these policy aspects could leave a dangerous national security gap that terrorists will be all too eager to exploit—and with devastating effect.

But the requirements of policy integration are not unique to the counterterrorism arena. An effective response to a financial crisis, like that which occurred in Asia in 1997 and around the world in 2008, requires integrating diplomatic and economic considerations, as well as bringing foreign and domestic economic considerations into the mix. The effort to rebuild shattered societies in the Balkans, Afghanistan, and Iraq entails a need to bring military, law enforcement, humanitarian, economic, and diplomatic expertise into a coherent strategic effort geared toward integrating security, governance, and reconstruction efforts in very different regional settings. And an effective policy toward climate change must bring scientific, economic, energy, and foreign policy factors to bear.

Unfortunately, the federal government is ill-suited to such policy integration. It is a stove-piped organization, consisting of executive departments that were created for specific functions and have grown, over time, into large, mostly one-dimensional organizations. Almost any issue worthy of the president's attention will involve the

* I am grateful to I.M. Destler, Anthony Lake, and James Steinberg for their comments and perspectives on an earlier version of this paper.

expertise and capabilities of multiple departments. But since departments seldom cede the lead on such issues to their counterparts, the White House is perforce the only real locus for effective policy integration. That, plus the need to ensure presidential direction of major policy issues, explains why the White House must lead the interagency policy development process. Actual operations, of course, will have to remain the responsibility of the executive departments.

Unfortunately, the White House tends to be organized in ways that typically mimic (with somewhat broader responsibilities) the stove-piped nature of the federal government. There is a National Security Council, a National Economic Council, and, more recently, a Homeland Security Council. There is also the Domestic Policy Council, the Office of Science and Technology, the Office of National Drug Control Policy, and the Council on Environmental Quality. In addition, presidents have frequently appointed assistants to emphasize the importance of particular issues, such as AIDS or climate change. Once an issue is assigned to one of these White House stove pipes, it is generally worked on by a staff responsible for its dimension of the problem. Other perspectives are brought to bear only at the highest levels (deputies, principals, or sometimes only when the issue reaches the president). This process produces policy recommendations where the interrelationship between different priorities is often neglected, and typically increases the level of conflict at high policy levels without adequate, broad-gauged staff work.

Past administrations have sought to address these problems within the existing organizational framework by having staff with policy-bridging responsibility report to two senior masters. In the Clinton administration, staff in the International Economic Policy Directorate reported to both the national security advisor and the national economic advisor; staff in the Environment Directorate reported to the national security advisor and the head of the Council on Environmental Quality; and staff in the National Security/Science Policy Directorate reported to the national security advisor and the science advisor. In the Bush administration, this dual-hatting was elevated to the deputies level, with the deputy for International Economic Affairs reporting to the national security and national economic advisors and the deputy for combating terrorism reporting to both the national and homeland security advisors.

These arrangements helped to integrate diverse perspectives, but two key problems remained. First, the dual-hatted staff were torn by divided loyalties between the advisors to whom they reported. In some instances, such staff effectively came to “belong” to one or the other council/advisor, undermining the benefit of dual reporting chains. Second, the arrangements did not adequately integrate the economic, environmental, and other functional perspective into traditional foreign policy problems (especially

when these issues were handled by the regional directorates of the NSC).

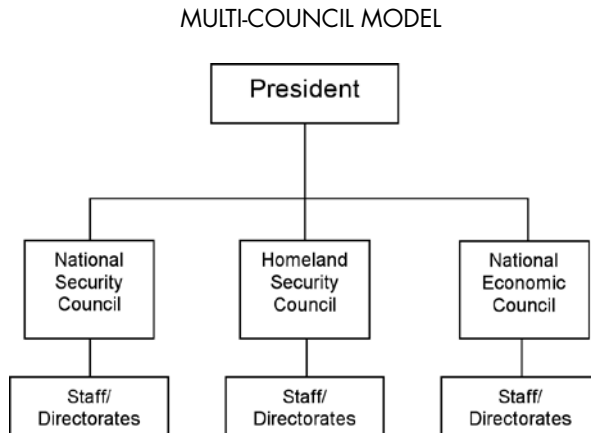
Reorganization Options

There are at least three different ways in which the White House can be organized to meet the increasingly multi-dimensional demands of policymaking. The first option would retain the three-council system, with modest refinements to address some of its drawbacks (see Appendix A, for the current White House setup). The other two options involve more far-reaching changes by abandoning the reliance on multiple councils and differentiated staffs.

I. The Multi-Council Model

This option would continue to subdivide White House staff under the three main policy councils—for national security, national economics, and homeland security—in the belief that the issue-load to be handled by the White House staff is simply too large for a single council-system or staff to handle. Moreover, the number of issues requiring interagency coordination and direction continues to expand within each council's sphere. For example, many homeland security issues involve coordination among different domestic agencies, an area that has not traditionally fallen under the purview of the NSC. There is also a growing requirement to integrate domestic and foreign concerns within a particular council's policy area (e.g., homeland security or economic policy), which is best done by the bodies responsible for these issues. To ensure effective policy integration across the councils, there could be an increase in the number of staff positions and directorates that are dual-hatted. These increases would be necessary for the international economic staff as well as the homeland security, terrorism, and intelligence staffs, which invariably deal with issues that cross the foreign-domestic divide.

To overcome the problem of dual loyalties requires understanding and cooperation at the level of the principals and deputies. This was the case during the first Clinton term, when Tony Lake, Bob Rubin, Sandy Berger, and Bo Cutter established a well-integrated policymaking operation when it came to international economic issues. That experience suggests that jointly chaired internal and interagency meetings have to be the norm when the issues in question involve multiple policy dimensions and the equities of more than one of the policy councils. Moreover, in order to ensure that economic and terrorism perspectives are more fully reflected in traditional foreign policy concerns, regional directorates would have to include economic and terrorism experts as an integral part on their staffs. (At the outset, the Bush NSC included an economic specialist on the staff of each regional directorate.)



Even with these changes, however, the multi-council model suffers many of the drawbacks that were identified above. Though the system is more familiar, and would be effective in addressing many routine matters, it risks perpetuating the stove-piping of the policymaking process at a time when many of the most important issues require policy integration across these functional and national/international divides. Perhaps most critically, the effectiveness of the model depends on having an exceptional level of cooperation at the principals and deputies level (which has not always been the case), while extending the practice of dual-hatting staff may, in reality, exacerbate the problem of divided loyalties.

There is, therefore, a strong case for abolishing the stove pipes. This would entail the abolition of some or all of the policy councils as staffing units. (Note: The councils could remain as cabinet-level committees, though participation in their meetings would continue to broaden beyond their statutory members. For example, the Treasury secretary has been a full member of the NSC principals committee in the Clinton and Bush administrations.) The 9/11 Commission has called for merging the HSC into the NSC, a provision also included in the Senate version of the intelligence reform bill. More generally, an economics and counterterrorism perspective will be needed on a wide range of issues, from preparing the president for visits of foreign leaders, to key policy decisions, to budget and funding issues. Similarly, consideration of most international economic issues will require political and/or national security input.

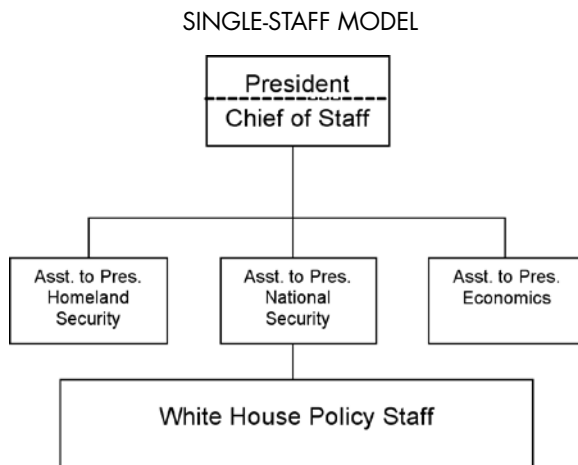
Abolishing stove pipes can be done in at least two ways—one that leads to a single White House policy staff, and one that gives preeminence to a single council, the NSC.

II. Single-Staff Model

Although integrating the staff work across the policy disciplines is critical, it is also vital that the president have the counsel of the best possible senior advisors on the key policy issues facing the nation. Today, the three key international policy areas are each represented by an assistant to the president. The single-staff model would retain these three separate assistants, but each could draw on a single, integrated policy staff to manage the interagency process and help formulate new policy. Each of the assistants would be assigned the lead on a set of issues and he or she would then organize and supervise the staff work for those issues, chair the interagency meetings, and prepare decisions for review by the president. The other assistants would participate in this process as and when needed.

This arrangement would depend heavily on informal cooperation among the staff members and on their ability to work for different masters on different sets of issues. Part of a staff member's day could consist of working on homeland security issues for the homeland security advisor, on sanctions policy for the economic policy advisor, and on a new nuclear energy initiative for both the economics and national security advisors.

Two additional organizational changes would be necessary to make this reform work. One would be to assign the president's chief of staff the critical role of resolving likely disagreements among the assistants, both on who among them should take the lead on individual issues, and on how substantive disagreements



on policy should be resolved, either at the principals level or through referral to the president. (This was, in fact, the role played by the chief of staff in the Clinton White House on such critical cross-cutting issues as trade legislation, the Asian financial crisis and China's WTO accession). The other important change would be the establishment of a strong Executive Secretariat for the consolidated White House policy staff, headed by a senior, experienced professional who would have overall responsibility for day-to-day staffing decisions, leaving the assistants to the president free to focus on substantive policy issues.

The advantage of this model is a more complete, balanced, and integrated consideration of the range of policy issues at the principals level than is the case under any other model. The president could be confident that all of the different perspectives will have been considered before the issues are presented to him for decision.

But this reform depends heavily on aides' readiness to subordinate their egos and interests and work smoothly and flexibly together. Absent such cooperation, sorting out ownership over different issues could become more and more time-consuming, even confrontational. This task could come to occupy much of the chief of staff's time—at serious cost to his or her other unique functions. Moreover, in order to ensure prompt consideration of the many issues flowing into the White House for action, the Secretariat will have to be powerful. If this volume of business also forces the Secretariat to become large, it becomes a new bureaucracy with significant drawbacks of its own. Finally, the assistants to the president could lose some of their stature vis-à-vis the rest of the government. This could be a particular blow to the national security advisor, who has been, for the last forty-five years, the president's principal point person on international affairs (the chief of staff has played this role on most domestic issues). If the chief of staff assumes this role, the advisor loses standing not only within the internal White House hierarchy but with the cabinet secretaries—with potentially negative consequences for the advisor's ability to fulfill the all-important interagency coordination function. What would be gained in terms of policy integration within the White House could thus be lost by the possible weakening of the interagency process.

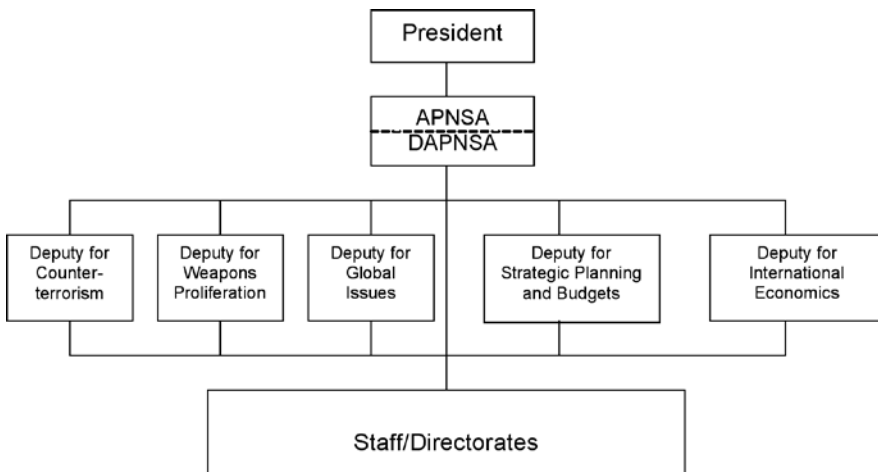
III. Single-Council Model

One way to overcome these drawbacks would be to retain the National Security Council as the primary organizing vehicle for both the White House and the interagency process. Functions and staff currently part of the other White House councils would be moved into the NSC (though one could retain the NEC as the place responsible for coordinating domestic economic policy, with possible shared

control over international economic policy). It would then be up to the national security advisor to ensure different policy perspectives are reflected in the directorates and staff teams that help formulate policy. Deputy national security advisors with responsibility for key functional areas like terrorism, weapons proliferation, international economics, and global issues could draw on an integrated staff to ensure that different perspectives (regional as well as functional, foreign as well as domestic) are brought to bear on the policymaking process. Overall oversight of the process would reside with the national security advisor and the principal deputy, who would also be responsible for crisis management.

The advantage of this model is clarity of authority and responsibility within the White House and across the government. The national security advisor would be the single, undisputed leader of the international policy staff—and the president’s principal advisor on all international policy issues. The advisor could assign issues to specific deputies or directorates for consideration, and resolve any conflict within the staff. The model also encourages White House direction of the interagency process, with the national security advisor retaining clear authority over the Principals Committee, the principal deputy able to chair a true deputies-level meeting either as an alternative to the principals or for crisis management purposes, and the functional deputies chairing interagency meetings at the undersecretary level, which is where most departmental policy integration would occur. Assistant-secretary level interagency working groups would be chaired by

SINGLE-COUNCIL MODEL



NSC senior directors or heads of ad-hoc teams formed to address policy issues that do not clearly fall within a particular NSC directorate's purview.

This model has three disadvantages. First, the functional deputies in effect create a new bureaucratic layer, with the possibility that those lower in the hierarchy will have reduced standing in the interagency process. This might weaken, in particular, NSC senior directors overseeing key regional and country relationships. Second, under this model the scope of the national security advisor's job may be too great: can any individual staff member have the time and expertise to supervise across all functional areas (national security, homeland defense/counterterrorism, international economics, and global issues)? Strong deputies will help, but the burden of managing the internal process, running the interagency process at the principal level, and effectively serving as the president's principal advisor on these issues may simply prove too great. Finally, there would inevitably be concern that the "national security" orientation of this model would inappropriately diminish the influence of other perspectives. This concern might in part be alleviated if the NSC were renamed the "International Policy Council" (and/or the staff renamed the "international policy staff"), and the person heading the council and staff were someone with wide-ranging experience beyond the traditional national security field.

Two Notes of Caution

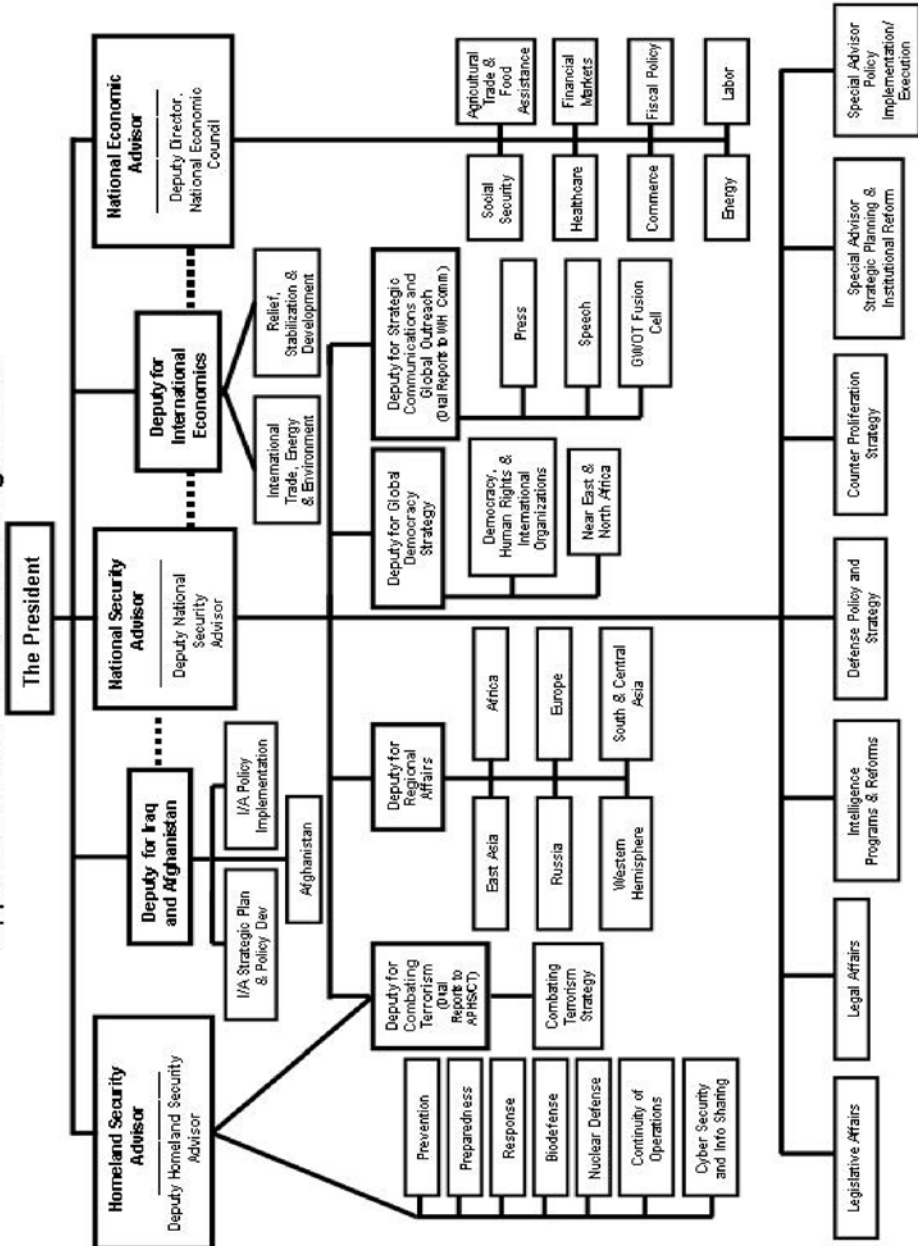
Up to this point, the discussion of different organizational models has ignored the most important determinant of which organizational structure would work best—namely, the desires of the president. How the president wants to be staffed will determine which of these models works best for him. The single-staff model, and to some extent the multi-council model, present the president with more differentiated points of view that exist within his staff than the single-council model. The single-council model, on the other hand, may better present the views of the president's top advisors within the cabinet. In short, before deciding on an organizational model, the president will have to think about how he wants his staff to serve him in a day-to-day capacity, including who among his aides he is most likely to look to for information, advice, and action, for it is these considerations that will be the primary determinants of whether and how a particular model will operate in practice.

This caveat leads to another: that in the chaotic, real world of policymaking, none of these models can be fully implemented in practice, and the ability of an administration to come tolerably close to implementing one of them in its entirety will depend on the choice of capable, compatible staff aides, with talents appropriate

to their roles, in whom the president has full confidence. Still, the choice matters. Since the end of the Cold War, White House staffing has increasingly fallen short on the critical need for policy integration. For the sake of the nation, we need to do better.

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Appendix A: Bush White House Organization



“...there must be a strong and energetic process at the center which assures that policy is made with due regard for all points of view, that differences are identified and sharpened, that the president is presented with all viable options, and that the president’s decisions are executed in an effective manner consistent with the president’s intent.”

— SAMUEL BERGER, THOMAS E. DONILON

Discussion Outline on National Security Policymaking and Implementation Structure and Process

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*“Good organization does not guarantee success,
but bad organization guarantees failure.”*

-Dwight D. Eisenhower

The National Security Act of 1947 created the National Security Council (NSC), the nation's first institutionalized structure for the coordination of foreign and defense policy. The NSC remains today the core mechanism for the development of national security policy (as well as crisis management). In the sixty years since its creation, the authority and effectiveness of the NSC have ebbed and flowed. Its structures and processes have varied depending principally on the outlook and the decision-making style of the president, the personalities and skills of the president's national security advisors, and the challenges facing the country.

It is generally acknowledged that, measured against any reasonable criteria, the NSC process in the Bush administration functioned poorly. The process has been described by former Bush administration officials and a range of analysts as “dysfunctional.” These failings have their roots in a variety of sources: 1) the multiple and, in some cases, unprecedented challenges that confronted the administration; 2) a number of process breakdowns and behaviors specific to this administration; and 3) the general deficiencies that have affected the NSC process through several administrations.

Correcting these deficiencies—both those specific to the Bush administration as well as long-standing fundamental weaknesses—is of critical importance to the next administration. The new president faces the most daunting set of international challenges of any president since World War II—including two active wars, jihadist terrorism, instability in Pakistan, nuclear programs in Iran and North Korea, a

fraying global non-proliferation regime, turmoil throughout the Middle East, a rising China, and global warming, among others. Such a challenging agenda demands an effective, efficient policymaking process—one whose organization and operation match the current environment's demands.

Creating a strong and effective interagency process by which policy is made and carried out, however, should not detract from the essential roles and responsibilities of the key cabinet officials. The secretary of state should be the face of the administration's foreign policy, the chief spokesperson for that policy, and the chief negotiator with foreign governments. The secretary of defense should be responsible for carrying out the use of military power, the chief architect of our military capabilities, and the custodian for maintaining and modernizing our overwhelming military apparatus—as well as the key interlocutor with his or her counterparts abroad. Other cabinet secretaries have important roles to play in national security policy—from the secretary of the Treasury to the director of the Office of Management and Budget.

But there must be a strong and energetic process at the center which assures that policy is made with due regard for all points of view, that differences are identified and sharpened, that the president is presented with all viable options, and that the president's decisions are executed in an effective manner consistent with the president's intent.

Deficiencies to be Addressed

The deficiencies specific to the Bush administration provide a number of lessons for future administrations and include at least the following: 1) The NSC failed to reach policy decisions at critical times, resulting in a failure to resolve differences and policy drift; 2) the vice president's office, with its parallel staff and expansive portfolio, pulled influence away from and fomented conflict within the NSC; 3) key players (specifically the secretary of defense) opted out of and circumvented the interagency process; 4) the national security advisor—particularly in the first term—served as a surrogate for the president rather than as an honest broker seeking to sharpen differences and present them clearly to the president, which meant that the president often was not presented with competing viewpoints; and 5) there were profound failures in execution and little accountability for failure.

Importantly—for the focus of this discussion—beyond the deficiencies of the Bush administration, there are also a number of fundamental issues that have persisted under both Democratic and Republican administrations for several decades that should be addressed.

- **Lack of Long-Term Planning.** In national security as well as in other areas of policymaking, the “urgent” usually drives out the “important.” Developments and trends brewing beneath the surface or over the horizon often are not addressed in a systemic fashion.
- **Inadequate Mechanisms for Implementing Policy Decisions.** Reaching the “right” answer is just the beginning. Often there has been a failure to obtain congruence between policy as developed and policy as implemented.
- **Lack of Accountability.** Bureaucratic rivalries in carrying out policy often defeat effective implementation.

Recommendations

The General NSC Structure

An effective interagency process requires a strong National Security Council led by a national security advisor who sees his or her role as honest broker in the policymaking process and chief watchdog in the implementation process to assure that the president makes the most informed judgments possible and that his or her decisions are, in fact, executed as intended.

We recommend that the national security advisor have four deputies (contrasted with the current system of seven deputies): 1) a principal deputy who would chair the deputies committee and handle crisis management; 2) a deputy national security advisor for counterterrorism and homeland security; 3) an NSC/NEC Deputy who would have responsibility for coordination between those two bodies and for national security-related and international economic issues; and 4) a deputy national security advisor for strategic planning who would chair the new strategic planning board (described below) and be responsible for national security policy development as it relates to long-term strategic issues.

We believe that the current basic structure remains sound and should be preserved. The current NSC is supported by two working committees—a principals committee and a deputies committee. This model was designed and first implemented by President George H.W. Bush and his national security advisor, Brent Scowcroft and has been carried forward through the subsequent two administrations. The Bush/Scowcroft system significantly streamlined and simplified the NSC system and provided a mechanism that was designed to bring decisions to the president in an

efficient and informed manner. The success of the system is, however, dependent on the dedication of the principals (as well as the president and vice president) to the system as the central means by which decisions are made and agreement among the principals to participate in the process in good faith.

The principals committee is chaired by the national security advisor and consists of the key national security cabinet members with the addition of the chairman of the Joint Chiefs and the national director of intelligence serving as statutory advisors. We would also add back the ambassador to the United Nations as a formal and permanent member of the committee. The principal functions of the committee are to resolve issues where there is consensus and do not rise to the presidential level, and in other cases—in the words of General Scowcroft—“clarify issues and positions among the principals before the issues are taken to the president.”

The deputies committee is chaired by the principal deputy national security advisor and consists of the second or third ranking official of the key national security agencies. This body resolves mid-level issues, handles crisis management, and fully considers options of issues for consideration by the principals committee.

Interagency working groups at the assistant secretary level would deal with policy recommendations in the first instance and report to the deputies committee.

Proposed Additional Structures

We recommend four new significant structures to supplement the current system:

- 1. Strategic Planning Board.** A chronic problem with national security policymaking is the failure to anticipate or see the broader and deeper issues that may confront the president beyond the six-month to three-year horizon. What are the implications of China’s rise over the next decade? What happens if the leadership of a key ally, say Egypt or Saudi Arabia, collapses? What are the implications of large changes in capital flows for the U.S. population? What are the implications of global population and demographic changes?

The U.S. government currently lacks the capacity to do serious, comprehensive, multifaceted, and long-term strategic planning. There are planning offices and assets throughout the government, but nowhere is planning brought together comprehensively and strategically—nor is it done at a level that informs and affects presidential decision-making. The charter of such a new

body would resemble that of George Marshall's 1947 vision for the State Department's policy planning staff and the Eisenhower administration's blueprint for its NSC planning board (and its Project Solarium exercise). This new body would reside in the Executive Office of the President and would be composed of deputy or assistant secretaries from the key agencies. It would report to the Principals Committee through a new deputy national security advisor who would be dedicated to this responsibility.

The Strategic Planning Board's discussions would be informed by analyses of the CIA's National Intelligence Council (NIC), as well as by outside experts from universities, think tanks, and the business community. In addition, a new organization would be created—a think tank dedicated to the national security policy process, serving a function much like RAND does for the Defense Department. This think tank would undertake empirical studies for the board at the request of the board, the principals, or the president.

In short, the board would serve as the president's dedicated strategic planning arm, situated at the heart of the national security process, to assess the most important emerging international issues facing the nation.

- 2. Council on Climate Change and Energy Security.** Addressing the issues of climate change and energy security will be among the earliest and most complex challenges facing the new president. They present both domestic policy and national security challenges and will require very high priority focus by the president and a mechanism through which the president can develop and execute policy. The issues surrounding energy security and climate change are simply too encompassing to be under the purview of the Department of Energy, the Environmental Protection Agency, or any particular cabinet member—they cut across everything from diplomacy to defense to agriculture to transportation, and as such need to be managed centrally by the White House itself. Both to reflect the critical importance of global warming and energy security issues and to provide a mechanism to harness the government in a comprehensive fashion to address these challenges, we recommend that a new council be established in the White House—much like the NSC or the National Economic Council.

The council would be responsible for formulating recommendations to the

president, coordinating the implementation of these policies, and ensuring that other decisions made by the administration are consistent with these priorities. The council would consist of the cabinet officials from the relevant agencies and would be directed by an assistant to the president for climate change and energy security, who would also be a member of the NSC Principals Committee.

3. National Security Law Committee. The current administration has seen significant process and planning breakdown in the area of national security law. Many of the decisions made were done so without careful review by the responsible officials and the results have been exceedingly damaging. We recommend the establishment of a National Security Law Committee, chaired by the attorney general and supported by the Office of Legal Counsel (OLC). This committee would advise the president and the principals on national security law policy issues, including war-making authority, surveillance policy, detention and interrogation practices, rules of engagement, and others. The committee would not displace the role of OLC as formal legal advisor to the president. Rather, it would be a formal interagency process in which all relevant agencies would participate in the development of administration positions and advice to the president through the nation's chief legal officer, the attorney general. The committee's first task would be a thorough review of existing national security related orders, policies, practices, and positions with the goal of a report to the president within ninety days of his taking office.

4. Executive Committees for Policy Implementation. Where policies cut across more than one agency—as in post-conflict reconstruction in Iraq—the formulation of policy and the supervision of implementation would be vested in an Executive Committee, chaired by a senior official of the agency with the greatest responsibility (e.g., State, Defense) and composed of senior officials of the affected agencies. These Executive Committees would not be responsible for the day-to-day conduct of policy but rather for the process by which policy is made and accountability is established.

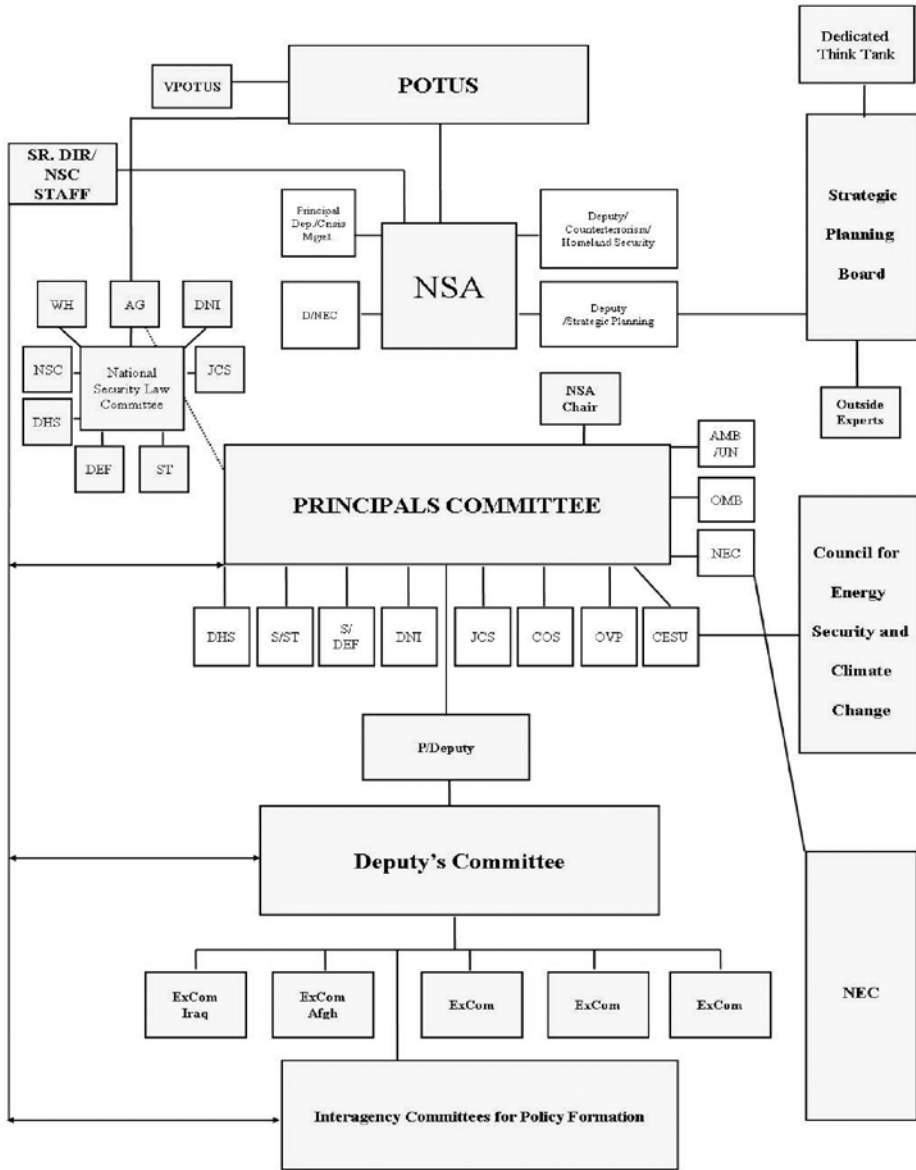
Additional Issues

There are several additional issues we recommend the new administration consider:

1. Our recommendations assume the integration of the Homeland Security Council into the NSC. This is in line with the recommendation of the 9/11 Commission and most of the experts with whom we have spoken. Is it the correct policy call? Would it overly burden the NSC process? What has been the Bush administration experience?
2. We do not address the issue of strategic communications or public diplomacy. Should this be coordinated out of the White House? Should the U.S. Information Agency be reestablished? Bill Galston has called for the establishment of a cabinet-level agency for public diplomacy. Is this a good idea?
3. What is the best mechanism for the creation and pursuit of a fully integrated national security budget?
4. What is the best mechanism for the creation, development, and deployment of civilian national security programs, including stabilization and reconstruction assets and the myriad of assistance and training programs?

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“Strategy—real strategy—is often, perhaps typically, misunderstood; and doing it well is no easy task. But it is indispensable, and never more so than in today’s highly volatile security environment.”

— ANDREW KREPINEVICH

Organizing for National Security: Barriers and Opportunities

Andrew Krepinevich

President,
Center for Strategic and Budgetary Assessments

As we begin a new administration, we are sobered by the security challenges that emerged during the last administration: the attacks of 9/11; the deployment of U.S. troops to Iraq and Afghanistan; the erosion of barriers to nuclear proliferation; and the rapid rise of China and resurgence of Russia. Not surprisingly, there is growing interest in what organizational changes the new president might make in order to meet these challenges. However, before undertaking such an enterprise, the new administration would be wise to craft a sound national strategy which would guide and inform any executive branch reorganization. Anything less would be putting the cart before the horse.

This will not be easy. A number of prominent American strategists have reached the general conclusion that the United States government's capacity to craft national security strategy at anything approaching an acceptable level of competence is highly suspect.¹ If this is true—and this chapter takes the position that it is—why is the United States government's ability to develop strategy so deficient? What are the principal barriers to success in this area? What might be done to overcome them? These questions are at the core of this paper.

What is Strategy?

Although many definitions of the word have been offered, prominent military theorists such as Carl von Clausewitz, Basil Liddell Hart, Bernard Brodie, Richard Betts, and Colin Gray agree that strategy is in essence a “how-to” guide for employing limited means effectively to achieve a stated goal.² This paper further posits that strategy involves “identifying or creating asymmetric advantages in competitive situations that can then be exploited to help achieve one's ultimate objectives despite the active, opposing efforts of one's adversaries or competitors to achieve theirs.”³ Thus, a sound strategy leverages one's asymmetric advantages to

impose disproportionate costs upon the competition, making it unfeasible for one's rivals to compete effectively.

The importance of identifying and exploiting asymmetric advantages has been emphasized by a number of highly regarded strategists from both the military and the private sector. Richard Rumelt, one of the leading thinkers in the field of business strategy, notes that a strategist's job is "to identify, create, or exploit some kind of an edge."⁴ Business strategist Kees Van der Heijden concurs: "Success can only be based on being different from (existing or potential) competitors."⁵ These differences, or asymmetries, are the source of competitive advantage; successful strategists must exploit them in order to develop the best possible approach for achieving their desired objective. This view is seconded by General Rupert Smith, who states that "the essence of the practice of war is to achieve asymmetric advantage over one's opponent; an advantage in any terms, not just technological."⁶

This suggests an alternative purpose for engaging in the process of strategy crafting. As Van der Heijden observes, "the ultimate purpose of strategizing...is to gain a new and original unique insight into where the...environment is going in the future, in an area where the strengths of the organization can be utilized."⁷ Put another way, the real value of strategic planning is not in delivering an end product, a "final authoritative edition" of a strategy report, but rather in developing insights as to where asymmetric advantages lie. These can then be exploited by policymakers as they plot their course. President Dwight D. Eisenhower understood this, as revealed in his observation that "Plans are useless . . . planning is indispensable."⁸

By way of explanation, Eisenhower stated that "[T]he secret of a sound, satisfactory decision made on an emergency basis has always been that the responsible official has been 'living with the problem' before it becomes acute."⁹ Thus the development of a strategy document to serve as a guide for the nation's leaders, important as it is, is not the principal aim of strategic planning. Rather, strategic planning is a continuous process that ensures that national security leaders are informed of sources of asymmetric advantage they can exploit in order to achieve stated goals or to modify their strategy as necessary. Because of the constantly evolving character of the global security environment, the planning function is essential: national strategy must be reevaluated and refined regularly as our knowledge of the competitive environment and prospective asymmetric advantages changes.¹⁰

Having described what we mean by strategy and strategic planning, we now turn our attention to the barriers to their successful accomplishment.

Barrier One: Failure to Understand Strategy

There has been a longstanding tendency in the U.S. government to equate strategy with a list of desirable outcomes. When this occurs, there is little discussion of what barriers stand in the way of achieving these goals or how these barriers might be overcome, given the limitations on available resources. Thus, rather than working out how scarce resources can best be employed to achieve a challenging security objective, the mere statement of desire to meet the objective is deemed sufficient.

For example, consider the Clinton administration's 2000 *National Security Strategy*, which concludes by describing its "strategy" almost purely in terms of desired outcomes:

Our strategy ... is comprised of many different policies, the key elements of which include...

- Encouraging the reorientation of other states, including foreign adversaries...
- Encouraging democratization, open markets, free trade, and sustainable development... [and]
- Preventing conflict.¹¹

The problem is not limited to the Clinton administration or to civilian leadership. Take, for example, a Joint Chiefs of Staff document, *Joint Vision 2010*, published in 1996, which explains how the U.S. armed forces will achieve the "common goal" of a military that is "persuasive in peace, decisive in war, preeminent in any form of conflict."¹² This is to be realized through "information superiority" that enables "dominant maneuver," "precision engagement," "focused logistics," and "full-dimensional protection." In other words, the U.S. military has the goal of being completely aware of what is happening in a theater of war ("information superiority"), being able to move its forces, which are to be completely protected ("full-dimensional protection") wherever it desires ("dominant maneuver"), and to engage with unprecedented effectiveness ("precision engagement"), while always being fully supplied ("focused logistics").¹³ Conspicuously absent is a discussion of how these sub-goals are to be realized. Nor is any mention made of potential enemy actions or resource limitations which could frustrate our efforts. Again, since "strategy" is reduced to the assertion that the conditions desired will be achieved, there is no need to consider resource limits or enemy action. In short, the need for strategy—identifying and exploiting asymmetric advantages—is assumed away.

Strategy—real strategy—is often, perhaps typically, misunderstood; and doing it well is no easy task. But it is indispensable, and never more so than in today’s highly volatile security environment. As Van der Heijden notes, “The need for efficient strategic thinking is most obvious in times of accelerated change when the reaction time of the organization becomes crucial to survival and growth.”¹⁴ For the United States, the ability to react quickly and effectively in a highly uncertain world can be greatly enhanced by a well-developed strategy.

Barrier Two: Failure to Understand the Enemy

There is another area in which lack of understanding poses a serious barrier to formulating effective national strategies. The failure to understand the enemy severely limits a nation’s ability to identify where its advantages lie and how best to exploit them. Consider an example from the Truman administration. After the Soviet Union detonated its atomic bomb, a revised U.S. strategic assessment—the famous NSC-68—moved away from the previous emphasis on Soviet subversion and political warfare, and instead stressed the role of military capabilities in countering the Soviet threat.¹⁵ This change generated significant debate. Chip Bohlen, one of the so-called “Wise Men,”¹⁶ argued that the Soviet leadership’s top priority was to preserve their regime, and that this fact was being ignored by American leaders.¹⁸ Bohlen’s point was that differing assessments of Soviet motives—whether the Soviet leadership prioritized its expansionist objectives over its survival—had very different implications for strategy. Ultimately, Bohlen’s argument prevailed, and U.S. strategy retained a major focus on Soviet political warfare and subversion, while accepting a deterrent posture against the coming Soviet nuclear threat in the belief that Moscow would not start a war that could cause the regime to lose internal control.¹⁸

Unfortunately, the United States does not currently enjoy the kind of expertise regarding how its rivals think and operate that it did during the early stages of the Cold War. Developing a cadre of experts on militant Islamic groups, China, and other key states of concern (e.g., Iran) is an essential element of any serious effort at strategy formulation.

Barrier Three: Non-Believers

For many national security decision-makers, the importance of high-quality strategic planning is obvious. Others raise issues of feasibility. As Richard Betts points out, “Because strategy is necessary...does not mean it is possible.”¹⁹

Skepticism over the value of strategy and the possibility of doing it well is seen

at the highest levels of America's national security establishment. For example, President Bill Clinton's national security advisor, Sandy Berger, put little stock in the government's strategic planning efforts, declaring that "most 'grand strategies' were after-the-fact rationales developed to explain successful ad hoc decisions." Berger went on to say that he preferred to "worry about today today and tomorrow tomorrow."²⁰ This kind of skepticism is not limited to a particular individual, a particular administration, or even a particular party.

Despite such objections, the importance of strategic planning cannot be overstated. As Betts argues, "Without strategy, there is no rationale for how force will achieve purposes worth the price in blood and treasure."²¹ Indeed, when lives and livelihoods are at stake, how can one rationalize not "worrying about tomorrow?" Betts also arrives at perhaps the best explanation for why strategy is often given short shrift: "Sensible strategy is not impossible, *but it is usually difficult*"²² [emphasis added].

Barrier Four: Failure to Recognize that Resources are Limited

Developing national security strategy is a challenging task because in order to craft strategy based on asymmetric advantages, one must take into account the limitations on resources. Were there no limitations on resources, there would be no need for strategy, since one could pursue all possible courses of action to the maximum extent possible. This, however, is not the case for the U.S. government. In order to develop sound, realistic strategy, one must recognize the constraints posed by limited resources.

Unfortunately, the Defense Department's approach to its Planning, Programming, and Budgeting System (PPBS) illustrates the opposite outlook on resource management; the PPBS actually encourages the armed services to ignore budgetary constraints. How so? Through "cut drills" that are intended to reconcile the gap between the defense program and defense resources. In a cut drill, the service that has thought through how to apply limited means to achieve its assigned mission—keeping its program in line with anticipated resources—is likely to be penalized, while a service whose program is substantially short of the resources needed for its execution is rewarded with additional funds. Not surprisingly, this is done because the tendency on the part of the department's senior leaders is to assist those who are most in need. The lesson for the services is clear: put in for as large a program and force structure as you can, and hope to sustain as much as you can in the cut drill. While this may make sense from a narrow, bureaucratic perspective, it hardly makes for a sound national strategy. Instead of encouraging the services to identify the sources of asymmetric advantage, it compels them to

focus on their shortcomings. As Andrew Marshall noted, “The big problem in the Defense Department is that the minute you start categorizing our strengths and advantages then the services faint, because their sales pitch on the Hill is [focused on] our weaknesses, or the strengths of the other side.”²³

Barrier Five: Bureaucratic Hostility

Assuming senior national security decision-makers believe in the value of strategic planning and understand the role that limited resources must play, they will likely encounter yet another barrier in the form of the bureaucracy. Even the casual student of organizational behavior knows that bureaucracies tend to have their own agendas, which typically offer stiff resistance to leaders’ attempts to enact change.

What is to be Done?

To begin, the president must be convinced of the value of strategic planning. The active involvement of the nation’s commander in chief and chief diplomat is essential to overcoming the barriers discussed. Failure of the president to take an active role could cause the strategic planning process to fall prey to narrow bureaucratic or organizational interests, leading to a suboptimal strategy, or no strategy at all.

The task of formulating strategy and conducting strategic planning should be assigned to a small team of highly capable individuals rather than relying on large bureaucracies to accomplish this task. As Rumelt notes, individuals and small teams are by their very nature more likely to develop the insights that are central to strategic planning.²⁴

President Eisenhower would have understood Rumelt’s point perfectly. In organizing the Solarium Project to explore strategy alternatives in the early days of his presidency, Eisenhower informed Secretary of State John Foster Dulles that he wanted to assemble three “teams of bright young fellows” to explore the United States’ options vis-à-vis the rising Soviet threat. Eisenhower picked his teams so that each group’s skill-set was based on the strategy it was to examine and advocate. In hindsight, the Solarium Project was an exercise unique in the history of U.S. national security strategic planning.²⁵

Contemporary national security decision-makers could also benefit from the success of Eisenhower’s NSC structure, which provided strong incentives to engage in serious discussions of strategy. Under this structure, the president chaired the NSC meetings and led the discussion, “asking for views around the table so as

to bring out conflicts” and differences among the members. Attendance was mandatory, as reflected in the fact that during the four-year period when Robert Cutler was Eisenhower’s special assistant for national security affairs, the president missed only six of 179 NSC meetings.²⁶ To ensure a rich discussion, Eisenhower strictly limited the number of individuals who could participate, typically to eight.

To support the president and his senior national security lieutenants, Eisenhower also created a Planning Board, which developed policy papers to be considered by the NSC. The reason for the board, he explained to the NSC members, was that

You Council members...simply do not have the time to do all that needs to be done in thinking out the best decisions regarding the national security. Someone must therefore do much of this thinking for you.²⁷

“A revived Planning Board’s purpose should be similar to that originally intended for the State Department’s Policy Planning Staff—to look ahead, beyond the vision of the operating officers caught in the smoke and crises of current battles, to anticipate future challenges and outline ways to meet them.” In doing this, the staff should also do something else: “constantly reappraise what was being done... [given that] policies acquired their own momentum and went on after the reasons that inspired them had ceased.”²⁸

Eisenhower adopted a similar perspective, noting that “[S]ituations of actual or probable conflict change so rapidly and the weaponry of modern military establishments increase their destructiveness at such a bewildering speed [that the president] will always need the vital studies, advice, and counsel that only a capable and well-developed staff organization can give him.”²⁹ Dean Acheson, who succeeded Marshall as secretary of state, observed that, designed in this manner and populated with chiefs like George Kennan and Paul Nitze, the Policy Planning Staff “was of inestimable value as the stimulator, and often deviser, of the most basic policies.”³⁰

The Planning Board’s members were nominated by the NSC principals and appointed by the president. The individuals comprising the new Planning Board should be senior officials who are exceptional strategists, since they are, in effect, the small group of people tasked with identifying the insights upon which asymmetric advantages are derived and strategies formed. For example, the Defense Department might assign the director of its Office of Net Assessment to serve on a revived Planning Board, while the State Department might designate the head of its Policy Planning Staff.³¹ The quality of the information and analysis

these key individuals present to the NSC would greatly influence that body's ability to make good strategic decisions.³²

To ensure that the Planning Board members were not beholden to their departments or agencies, Eisenhower made it clear that their mission was not "to reach solutions which represent merely a compromise of departmental positions."³³ Reestablishing a Planning Board could, along with persistent presidential involvement in the formulation of strategy, go a long way toward improving the quality of U.S. strategy. As former National Security Advisor Zbigniew Brzezinski observed:

The Planning Board was a very important instrument, the elimination of which has handicapped the U.S. government ever since then. Because the consequence is that we don't have overall national security planning.³⁴

To ensure the Planning Board has access to the best information and the best minds, both in and out of government, it should be able to task any department or agency for information and have the capacity to reach outside of government for expert advice and support.³⁵ What it should not be able to do is outsource its critical thinking and analysis. It may be prudent to establish temporary advisory boards to address specific issues of great importance to support the Planning Board's work. If so, these supporting groups should be comprised of individuals who are among the most eminent in their field.

There are at least two threats to the effective operation of the Policy Planning Board: One is that its talented staff will be drawn into day-to-day operations; the other is that it will become a compiler of information as opposed to a thinking body.³⁶ Eisenhower sought to solve the first problem by such means as prohibiting its members from accompanying their principals on overseas trips except when absolutely necessary so they could "stay on the job and supply a continuity of planning and thought."³⁷

There is also the matter of executing the NSC's decisions. If the bureaucracy is unable to advance its own agenda during strategy formulation, it will work to enforce its will in strategy execution. We turn again to the success of the Eisenhower administration: To ensure that decisions based on the Planning Board's efforts were implemented, Eisenhower established the Operations Coordinating Board (OCB) which would, at regular intervals (of three to six months), prepare progress reports for review by the NSC.³⁸

The OCB met regularly on Wednesday afternoons at the State Department. Its members included the under secretary of state for political affairs, the deputy

secretary of defense, the directors of the Central Intelligence Agency (CIA) and the U.S. Information Agency (USIA), and the special assistants to the president for national security affairs and security operations coordination. The NSC's action papers were assigned to an OCB team for follow-up.³⁹ A similar organization could support the new president's efforts to ensure his key policy decisions were being implemented as intended.

Aaron Friedberg's suggestion that these revived boards be placed under the direction of a national security advisor for planning and coordinating makes great sense, given that the modern-day national security advisor has become enmeshed in the day-to-day activities of government.

Conclusion

The barriers to developing sound strategy are many, and they are formidable. An argument can be made that the United States government not only has lost the ability to do strategy well, but that many senior officials do not understand what strategy is. Despite these barriers, the benefits of crafting good strategies are so great—and the potential risks posed by ignoring strategy so deleterious—that they merit a strong push by senior U.S. national security decision-makers, the president above all, to overcome them. Revitalizing strategic planning at the highest levels of the government with a contemporary version of Secretary of State George Marshall's Policy Planning Staff and President Eisenhower's NSC model, to include the Planning and Operations Coordination Boards, could be an important first step toward achieving this end.

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- ¹ See, for example, Aaron L. Friedberg, “Strengthening Strategic Planning,” *The Washington Quarterly*, (Winter 2007-08); and Barry D. Watts, “Why Strategy? The Case for Taking it Seriously and Doing it Well,” unpublished paper, Center for Strategic and Budgetary Assessments, 2007.
- ² Carl von Clausewitz, *On War*, edited and translated by Michael Howard and Peter Paret (Princeton, NJ: Princeton University Press, 1976), 181; B. H. Liddell Hart, *Strategy* (New York: Meridian, 1991), 321; Bernard Brodie, “Why Were We So (Strategically) Wrong?” *Foreign Policy*, (Winter 1971-72): 151. Cited in Marc Trachtenberg, *History and Strategy* (Princeton, NJ: Princeton University Press, 1991); Richard K. Betts, “Is Strategy an Illusion?” *International Security*, (Fall 2000): 6; Colin S. Gray, *Modern Strategy* (Oxford: Oxford University Press, 1999), 17; and Watts, 2.
- ³ Watts, 2.
- ⁴ Barry D. Watts, “Memorandum for the Record,” *Strategy Seminar*, (Washington, DC: Center for Strategy & Budgetary Assessments, 2007), 7.
- ⁵ Kees Van der Heijden, *Scenarios: The Art of Strategic Conversation* (Hoboken, NJ: John Wiley & Sons, 2005), xv.
- ⁶ Rupert Smith, *The Utility of Force: The Art of War in the Modern World* (New York: Alfred A. Knopf, 2007), 377.
- ⁷ Van der Heijden, 55.
- ⁸ Richard Nixon, *Six Crises* (Garden City, N.J.: Doubleday, 1962), 235.
- ⁹ Robert R. Bowie and Richard H. Immerman, *Waging Peace* (Oxford: Oxford University Press, 1998), 89.
- ¹⁰ Van der Heijden, p. 15.
- ¹¹ William J. Clinton, *A National Security Strategy for a Global Age*, (Washington, DC: Government Printing Office, 2000), 67.
- ¹² General John M. Shalikashvili, *Joint Vision 2010* (Washington, DC: Department of Defense, 1996), 2.
- ¹³ *Ibid.*, 19
- ¹⁴ Van der Heijden, 12.
- ¹⁵ Bowie and Immerman, 12.
- ¹⁶ Walter Isaacson and Evan Thomas, *The Wise Men* (New York: Simon and Schuster, 1986), 19-20.
- ¹⁷ Bowie and Immerman, 28.
- ¹⁸ *Foreign Relations of the United States 1951*, Vol. 1, (Washington, DC: U.S. Government Printing Office, 1977), 177-78. Cited in Bowie and Immerman, 31.
- ¹⁹ Betts, 5.
- ²⁰ R.W. Apple, “A Domestic Sort with Global Worries,” *New York Times*, (25 August 1999): A10.
- ²¹ Betts, 5.
- ²² Betts, 46-48.
- ²³ Watts, 7.

²⁴Dan P. Lovallo and Lenny T. Mendonca, "Strategy's Strategist: An Interview with Richard Rumelt," *The McKinsey Quarterly*, (August 2007).

²⁵Bowie and Immerman, 125-26.

²⁶*Ibid.*, 91.

²⁷*Ibid.*

²⁸Dean Acheson, *Present at the Creation* (New York: W. W. Norton, 1969), 214.

²⁹Bowie and Immerman, 83.

³⁰Acheson, 214-15.

³¹The Policy Planning Staff was established by George Kennan at the direction of Secretary of State George C. Marshall to provide "a source of independent policy analysis and advice for the Secretary of State." Its first assignment was to design the Marshall Plan. It also played a major role in developing one of the Cold War's seminal strategy documents, known as NSC-68. The Office of Net Assessment was established in 1973 by Secretary of Defense James Schlesinger. It serves as the Defense Secretary's internal think tank and has played an important role in a number of important strategy issues, including the Maritime Strategy, the Strategic Defense Initiative, the Competitive Strategies Initiative, and the Revolution in Military Affairs. Andrew W. Marshall has led the office since its inception.

³²The NSC Planning Board met on Tuesday and Friday afternoons and comprised officials from the agencies with permanent or standing representation on the Council, as well as advisors from the JCS and CIA. The NSC, chaired by the president, met regularly on Thursday mornings. Available at <http://www.whitehouse.gov/nsc/history.html#eisenhower> (accessed 23 December 2008).

³³Bowie and Immerman, 91.

³⁴Zbigniew Brzezinski, "The NSC at 50: Past, Present, and Future," (speech, Council on Foreign Relations, Washington, DC, 31 October 1997). Available at http://www.cfr.org/publication/64/nsc_at_50.html (accessed 23 December 2008).

³⁵At Eisenhower's direction, Robert Cutler, the National Security Advisor, organized "study groups" of senior strategists, to include those who had served in the Truman administration, such as Paul Nitze. These groups provided individual and collective advice, while also reviewing past NSC papers, hearing the testimony of experts, and soliciting memoranda from experienced leaders with knowledge of strategy, such as George Marshall, Charles "Chip" Bohlen and Robert Lovett. Bowie and Immerman, 87.

³⁶Acheson saw these as the two major "distractions" confronting the State Department's Policy Planning Staff. Acheson, 214.

³⁷Bowie and Immerman, 91.

³⁸*Ibid.* 93.

³⁹"History of the National Security Council, 1947-1997," The White House. Available at <http://www.whitehouse.gov/nsc/history.html#eisenhower> (accessed 23 December 2008).

Part **5**

PRIORITIES SPECTRUM: INSTRUMENTS AND INSTITUTIONS SERVING AMERICA'S PURPOSE

CHAPTER 12

American Purpose: What Role for the United Nations?

Jane Holl Lute

Assistant Secretary-General for Peacebuilding Support,
United Nations

CHAPTER 13

Memo to the President: Making Preventing Nuclear Terrorism a Central Organizing Principle of Your Administration

Graham Allison

Director, Belfer Center, John F. Kennedy School of Government,
Harvard University

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Building Public-Private Partnerships

Sylvia Mathews Burwell

President, Global Development Program,
Bill & Melinda Gates Foundation

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John Podesta

President and CEO,
Center for American Progress

American Purpose: What Role for the United Nations? A Condensed Case Study

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United Nations

Introduction

Following the Second World War, the United States led the creation of the United Nations as the institutional bedrock of world order. Emerging from the dominance of America and her allies in 1945, the UN reflected an inclusive vision that reached out to other nations with a commitment to mutual respect for sovereignty and a generalized opposition to armed aggression. Moreover, it was a vision taken to signify a commitment to consultation and consensus.

Effective UN action has always reflected a compromise between a traditional power concert (the Security Council) and a broad-based coalition. Washington has consistently placed more emphasis on the former. However, deadlock among the permanent Council members, questions surrounding the legitimacy of the Council itself, and open discomfort that the American purpose has markedly departed from the common agenda that the UN was founded to represent have caused most other member states to openly challenge the Council's dominance, to demand a meaningful say on key issues, and to insist that arrangements on everything from nuclear proliferation to global warming universally apply.

Implications

These expectations of inclusion and reciprocity along with the backlash they periodically generate in Washington have, at times, brought the organization to a standstill and stymied U.S. aims more broadly. This chronic, if predictable, clashing has forced a central question for U.S. decision-makers: whether to stay with the UN and the Security Council, or push for a new international architecture as the centerpiece of global peace and security.

* The views expressed in this paper are the author's own and do not reflect the official position of the United Nations. The author would like to thank Salman Ahmed, Renata Dwan, Jean-Marie Guehenno, David Harland, Ellen Laipson, and Paula Souverein-Eisenberg for their helpful comments and suggestions.

For the new president, rebuilding networks and relations with a broad swath of states will be key. What price other states will exact for cooperation remains to be seen, but for most of them, a healthy, reformed, and responsive United Nations is central to their global agenda. There is no question that for the United States, the UN can serve as a bridge back to the position of global leader and trusted partner. Several issues illustrate the UN's strengths.

First, the UN plays an important role in managing disunity (which is likely to persist) among the great powers—as recent developments in Kosovo and on climate change illustrate. When unity is not possible, the UN has shown a capacity to help states climb down from difficult positions and find a third way. The U.S. can deploy this strength to its advantage.

Second, just as UN peacekeeping began from a broad recognition that the UN could play a useful role in fault-line areas (e.g., in and around the Middle East, between North and South Korea, and between India and Pakistan), there may be a similar role for the UN today in helping to manage other fault-lines, such as within the Muslim world and between the Muslim world and the West. Many Muslim countries have no other international platforms on which to engage. They have few regional institutions, lack a significant profile in other multilateral fora, and have no real global leadership opportunities beyond the UN in New York—where for many, participation is limited to working through the Nonaligned Movement (NAM) or the G77. These countries often attack the UN, but they surely need it. Can the United States use this need to its advantage in managing the multiple crises in the Muslim world?

Third, the UN has the ability to deploy large-scale, multidimensional peace operations, undertake rapid humanitarian activities, provide essential architecture for expanding human rights, and act as a global convener to be reckoned with.¹ Engaging with others practically to exploit these strengths by, for example, supporting British and French efforts to strengthen international post-conflict responses (not only for Iraq and Afghanistan, but beyond, where much of the UN system is engaged, and where billions of dollars and decades of commitment are at stake), would go a long way toward rebuilding friendships and securing genuine partnerships.

Fourth, the United States can use the UN to help strengthen African capabilities to manage conflict—especially now, with the all-encompassing troubles of East Africa so apparent—in ways that can ensure transparency and balance interests while preserving Africa's own management of regional problems in ways that acknowledge a greater degree of accountability. More broadly, the UN offers the

U.S. a framework with which to bolster regional impulses—including in Europe, Latin America, and Asia—which are falling well short of their declared promise.

For other pressing issues, such as controlling the dangers posed by weapons of mass destruction, or dealing with dangerous pandemics or the global food crisis, the diversity of an engaged coalition will be as important as its breadth. Here, the UN also serves as catalyst, norm-builder, burden-sharing mechanism, and as a ready framework to create a community for action when extensive and extended efforts are required.

On the other hand, there are strategic issues on which the United States should not expect the UN to deliver any time soon. Of these, the most prominent may be global terrorism, where one must not overestimate the degree to which the rest of the world views this as a central, or even important, issue worthy of redirecting national priorities or precious political capital. While its post-conflict work—such as in Afghanistan—is important to this agenda, the UN has little to offer politically and technically for what many states view as a complex, but necessarily domestic law enforcement and national intelligence issue other than legitimating international efforts and building a culture of greater communication and transparency.

Conclusion

The UN represents a different kind of partner for the United States because of its inclusiveness (and hence, legitimacy) and explicit normative orientation based on values shared strongly by the community of states within which the American way of life is deeply rooted. Its capacity to absorb disputes and ability to sustain large-scale, complex operations are clear strengths. Should the U.S. stay with the UN? Or should it create a new structure such as the recently-suggested League of Democracies? Such a league, exclusive in membership but expansive in self-vision and mandate, does not look much like reaching out, and will likely only exacerbate current frictions and dissipate U.S. political energy—where would the lines be drawn?—at a time when priorities demand its focus.

But the UN must be reformed. Its centerpiece, the Security Council, must expand to reflect more equitable representation, and UN rules and procedures must be adapted to meet the growing demands of dynamic field operations (vs. fixed headquarters) where needs are greatest and budgets are growing. This is an agenda that the United States best tackles from a position of strength, but strong U.S. leadership must be reasserted in a way that brings others along. The rest of the world more or less understands this, and thus, using the United Nations as a central context for U.S. leadership could prove important.

Today, it has become almost impossibly difficult to govern. Governments are being forced to adapt to newly-evident needs as people search for better opportunities. Indeed, the very nature of the state may be changing fundamentally. This is a time of reinvention. It is a time to make room for powerful ideas—the kind that have animated the American purpose throughout its history. Indeed, the United Nations was, at its founding, just such an idea. As the United States works to restore its position as global leader, the UN can again be a place to begin.

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¹ For example, UN peacekeeping represents a practical attempt to manage the world's most difficult problems by embedding them in a unique framework that links international politics to a multinational presence on the ground. Its advantages include its historical independence of action, the assessed nature of its financing, and the political desire of the vast majority of the world's states to operate under the UN's mantle of legitimacy. Today, UN peacekeeping oversees twenty operations with nearly 140,000 peacekeepers in the field at an annual cost of approximately \$7.5 billion.

Memo to the President: Making Preventing Nuclear Terrorism a Central Organizing Principle of your Administration A Condensed Case Study

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During the presidential campaign, you asked people to think about just one nuclear bomb devastating the heart of just one great city. To combat this threat, you identified a dual challenge: (1) in the short run, a determined adversary who demonstrated on 9/11 a capacity to murder thousands of innocent Americans, and (2) over the longer run, trendlines that threaten to take us to a world of nuclear anarchy. You named this threat the only clear and present “game-changer” for America as a free country with our fundamental institutions and values. You pledged that you would make preventing this catastrophe an organizing principle of your administration. This memo provides a brief outline of strategy and organization to fulfill that promise.

Historians will debate whether your predecessor’s primary distinction was strategic incoherence or operational incompetence. No level of operational competence could have rescued President Bush’s misguided strategic decision to confront and then ignore North Korea. This “no carrots and sticks” strategy left Kim Jong-il free to do precisely what he did—produce enough plutonium for eight additional bombs and conduct a nuclear weapons test. Ditto Iran, which is fortunately a slower train, but headed for the same destination. Similarly, the fact that if terrorists exploded a nuclear bomb in an American city today, current forensic capabilities would not allow for speedy identification of the source of fissile material is the predictable consequence of a failure to provide focused funding to create this key competence.

Success in preventing nuclear terrorism and proliferation must start with a sound, presidentially-defined strategy. That strategy must include achievable objectives; calculated means to those ends; successive layers of supporting strategies and tactics; recalculation and adjustment in response to changing conditions; and relentless implementation. Key elements of such a strategy include:

- Reconstructing a global nuclear order according to a Doctrine of Four No's: no loose nukes, no new nascent nukes, no new nuclear weapons states, and no role for nuclear weapons in international affairs;
- Raising the consciousness and stakes for leaders of key countries in helping shape this secure nuclear future—especially Pakistan; Russia, regarding its own materials, as well as those in Belarus; and China, vis-à-vis North Korea;
- A global undertaking to mobilize governments in a new 21st century nuclear equivalent of NATO—a Global Alliance Against Nuclear Terrorism—with enforceable standards for securing all weapons and materials; joint actions to interrupt, interdict, and eliminate trade in nuclear materials; and a doctrine of accountability for a state's weapons and materials;
- Eliminating nuclear-capable global terrorists, focusing on Osama bin Laden, Ayman al-Zawahiri, and al Qaeda's nuclear command—attacked by CIA-sponsored operations into the Federally Administered Tribal Areas (FATA) conducted by local warlords, essentially mirroring the strategy and tactics that toppled the Taliban in 2001;
- Cleaning out vulnerable nuclear materials from the twenty-plus states and hundreds of locations with research reactors and programs that still have bomb-equivalents of highly enriched uranium (HEU) and plutonium (Pu);
- Advancing an assured nuclear fuel initiative to prevent new national enrichment and reprocessing and bring current activities under international inspection and supervision;
- Significantly increasing counter-nuclear terrorist capabilities and activities through global intelligence, security, and law enforcement partnerships;
- Stopping Iran's acquisition of a nuclear bomb and rolling back North Korea.

Making this strategy an organizing principle of your administration will require:

1. Presidential priority, demonstrated not just in words, but in deeds. The strategy must not only be presidentially-defined, but also presidentially-driven. Recall the “absolute priority” American Cold War presidents gave to preventing

general nuclear war. It was, as JFK observed, an essential prerequisite for our pursuit of any other objective. Preventing nuclear terrorist attacks on the American homeland deserves analogous absolute priority. Communicating this through the administration will require demonstrating that you feel this priority in your bones—bringing it to bear in decisions across the spectrum of foreign policy challenges from Iran and North Korea to the Nonproliferation Treaty and homeland security.

2. Priority in national security and foreign policy. Among the most pressing issues on your foreign and national security policy agenda on Day One will be: Iran and the imperative of stopping it short of nuclear weapons; North Korea and persuading Kim Jong-il that he will be held accountable for his nuclear materials or bombs; China and the necessity for its leadership in eliminating North Korea's nuclear arsenals; Russia and the relative importance of Russian support for preventing Iran's nuclear bomb versus fast-track membership for Ukraine in NATO or missile defense in Eastern Europe; U.S. nuclear weapons and the need to "lead by example" if the widespread cynicism about the Nonproliferation Treaty is to be reversed and the regime revived.

Operationally, the nuclear terrorism policy of your administration will thus, perforce, largely be defined by choices at the high table about the first-order national security and foreign policy agenda.

3. Someone in charge. Not a "czar," but a leader who works directly for you on this priority 24/7; who knows these issues and is able to integrate strategic, technical, and political dimensions; whose influence flows from others' understanding that s/he is your agent; who can convince people at many levels within the U.S. government, state and local governments, and foreign governments that this is their problem.

A menu of organizational options for putting someone in charge is analyzed in the 2004 CSIS-BCSIA Report "A Senior White House Official for WMD": a czar (analogous to the drug czar); a lead agent or agency, either inside one of the departments (the early Missile Defense Organization) or in the Executive Office of the President; a senior White House official outside the National Security Council (like Homeland Security Advisor Tom Ridge in

2001) legislated by Public-Law 110-53 “Implementing Recommendations of the 9/11 Commission Act of 2007” ; and a senior White House official working within the NSC structure as a deputy national security advisor. Each has its strengths and weaknesses. I endorse the recommendations of that report, which call for:

- A senior White House official as deputy national security advisor whose authority flows from others’ knowledge that s/he is your person charged to work 24/7 on preventing nuclear terrorism, who works only on this agenda, and who gets up early every morning asking, “what can we do today to prevent terrorists from getting nukes?” This official’s responsibilities would include refining and driving your strategies as well as integrating policy, intelligence, and operations;
- Chairing a Deputies Committee of lead senior officials in key departments (Defense, State, Energy, Intelligence, Homeland Security, and Treasury), each of whom works directly for the secretary of that department, but for whom this is at least a one-third time assignment, allowing him/her to consider every issue that impacts this threat;
- Leading programmatic cross-cutting reviews with the Office of Management and Budget (OMB) of all counter-nuclear terrorism/proliferation activity, and working with international counterparts in key states of the Global Alliance;
- A multi-fold increase in the capacity of spies and shooters to eliminate terrorists in your refocused campaign against global terrorists aimed at eliminating organized groups that have the intent and capability to conduct nuclear attacks against the U.S. and its allies. Note tradeoffs: Nuclear terrorism prevention narrow versus high-level foreign policy choices that impact; nuclear versus nuclear and biological (i.e., all real WMD).

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Building Public-Private Partnerships

A Condensed Case Study

Sylvia Mathews Burwell

President, Global Development Program,
Bill & Melinda Gates Foundation

Introduction

Public-private partnerships can offer powerful opportunities to respond to challenging global problems such as hunger, poverty, and disease. Acting together to combine resources and expertise, share risks, and unite constituencies, organizations can sometimes deliver results more effectively and efficiently than they could individually. However, these collaborations are not always possible to implement, and where they are, they take time, effort, clear vision, and compromise to build and maintain.

The Bill & Melinda Gates Foundation has participated in several well-known public-private partnerships, including the Global Alliance for Vaccines and Immunization (GAVI) and the Medicines for Malaria Venture (MMV). This case study examines a new partnership our Global Development Program has developed with the United Nations World Food Programme (WFP). With the food security crisis in the news and on our minds, this is a timely example of how we are building and looking to manage a partnership that we hope will relieve poverty and hunger in some of sub-Saharan Africa's poorest rural regions.

The Problem

Three quarters of the 1.1 billion people living on less than a dollar a day reside in rural areas, and most rely on agriculture for their food and income. In sub-Saharan Africa alone, there are more than 50 million small-scale farms supporting over 270 million people. For these farmers, improving productivity and selling surplus crops for income is one of the likeliest pathways out of hunger and poverty. Unfortunately, productivity and access to markets in sub-Saharan Africa are extremely weak. Over the last half century, agricultural productivity has

stagnated in sub-Saharan Africa. Seeds, fertilizer, tools, and other ingredients for productivity—expensive throughout the continent—cost considerably more in the remote rural areas where most small-scale farmers live.

Productivity is not the only problem: The vast majority of small-scale farmers in sub-Saharan Africa lack access to reliable markets to sell their goods. They face high transaction costs due to inadequate post-harvest storage facilities, poor roads and transport, and high fuel costs. Few purchasers will buy in the small quantities and varying quality that small-scale farmers deliver. Market information systems are limited at best, so small-scale farmers may not know at the point of sale that better prices or another buyer might exist elsewhere. They often must sell at harvest, when the market price is lowest, and buy in the lean season, when prices are highest.

At their most extreme, these barriers to market access have led to cases, as in Ethiopia, where gluts and famine have coexisted in the same country, driving down food prices, increasing poverty, and contributing to hundreds of thousands of hunger-related deaths.

The Evolution of the Partnership

In 2007, we began exploring a partnership to help WFP, the largest purchaser of staple crops for food aid in the developing world, purchase more food for its school feeding programs in Africa from local small-scale farmers. The foundation awarded WFP two planning grants to provide analytical studies, coordination, and strategic advice for the effort. As we worked together, we saw an opportunity to change the way WFP procures food not only for its school feeding programs, but for all its regional food aid operations. When the World Food Programme's new executive director, Josette Sheeran joined the organization and engaged on the results of the planning grants, she embraced this larger vision for the program and made it a centerpiece of her agenda.

In September 2008, WFP and the foundation announced a five-year, \$66 million partnership to use WFP's large purchasing power and on-the-ground presence to develop staple food crop markets in ten sub-Saharan African countries.¹ The partnership will help to build a market infrastructure that facilitates local purchasing arrangements by introducing grading and quality standards, installing procurement bases in rural areas, and promoting complementary investments in micro-insurance and warehouse receipt systems. The foundation will provide a majority of the funding required to make these changes possible. It will also continue to expand its farmer productivity projects in order to increase the supply

of food needed to match WFP’s demand in each of these ten project countries. Josette Sheeran’s strong advocacy for this effort has also led to additional funding from the Howard G. Buffett Foundation and other donors to expand the program beyond the ten countries that the foundation is supporting.

If successful, the partnership will:

- Transform WFP’s food purchasing supply chain to incorporate smallholder farmers;
- Increase the annual incomes of 350,000 smallholder farmers by at least fifty dollars; and
- Build market systems and infrastructure that enable other public and private sector actors to purchase from smallholder farmers.

The Road Ahead

Delivering on these goals will require WFP, the foundation, and many other stakeholders to meet a number of challenges together.

To begin, the partnership will need to invest in the cultural and institutional changes necessary to transform WFP’s internal processes. This entails gaining internal buy-in from current country directors and officers, hiring and training staff, and revising procurement, budgeting, contracting, and management policies and processes.

WFP will need to build new relationships with small-scale farmers’ organizations and find ways to purchase from them. This includes reaching out to farmers, providing training and support to NGO partners and farming organizations, monitoring market prices and quality standards, and converting existing warehousing infrastructure into buying stations that farmers can easily access. WFP will also need to maintain relationships with the wholesale traders it currently purchases from to ensure a consistent supply.

These efforts will establish a market infrastructure that enables small-scale farmers to sell their crops directly to WFP. We anticipate that 350,000 small-scale farmers will double their incomes in the five-year span of our formal partnership.

But in a larger sense, the success—and sustainability—of this program will come when smallholder farmers have market opportunities to sell directly to a wider range of purchasers, not just to WFP. To achieve this long-term vision, a number of other public and private sector partners must join the effort. Host governments will need to enact policies that encourage both additional investment

in market infrastructure and enable wider use of the markets. Donor countries and regional groups like the New Partnership for African Development will need to consider potential investments and complementary activities. And more public and private sector partners will need to step in and continuously use, expand, and improve the market infrastructure—warehousing, transport, pricing information, quality standards—that is created in this effort. In each case, the foundation and WFP’s involvement and commitment will be instrumental in paving the way for a wider range of public and private partners to support local food procurement systems.

Transforming WFP’s purchasing efforts represents a major step toward sustainable, transformative change that can benefit millions of poor rural households throughout sub-Saharan Africa and, in turn, help the region respond more effectively and efficiently to future food emergencies.

Ideas for the U.S. Government

Similarly, the U.S. government can engage in public-private partnerships through extending existing partnerships and considering new ones. One example would be to join with others and support a new incentive mechanism known as an Advanced Market Commitment (AMC). The AMC is designed to motivate companies to invest in the development and introduction of new technologies in developing countries. In the AMC, governments and donors guarantee the price of a vaccine once it has been developed, thus creating the potential for a viable future market. In exchange, companies commit up front to supply a certain amount of product at an affordable price for a pre-determined time period. In 2007, Italy, the UK, Canada, Norway, Russia, and the Bill & Melinda Gates Foundation committed \$1.5 billion to pilot this incentive for a pneumococcal vaccine. Once the program is launched, the World Bank manages the finances while the Global Alliance for Vaccines and Immunization, together with UNICEF, manages the contract and procurement processes.

Another idea is for the U.S. government to partner with the private sector, both foundations and companies, in funding research for developing world technologies at the National Science Foundation (NSF), National Institutes of Health (NIH), Defense Advanced Research Projects Agency (DARPA), and others. Existing incentives (tax credits or funding) for technology development for climate change and energy could be supplemented when companies or universities dedicate a portion of their research for developing world technologies.

Finally, the U.S. government could expand on partnerships like the memorandum

of understanding between the Millennium Challenge Corporation (MCC) and the Alliance for a Green Revolution in Africa (AGRA). The MCC will support agriculture-related infrastructure investments like roads and irrigation in the countries where AGRA is supporting efforts to increase farmer productivity. Both organizations will work together on key policy issues.

Conclusion

Public-private partnerships should be pursued not for their own sake, but when a partnership can maximize impact by bringing the particular capabilities of each player to the table. Such a partnership has the greatest potential for success when objectives are clearly defined, the strengths of each partner are identified, roles are defined according to each player's strengths, and results are tracked over time. This hammer called public-private partnerships is best used when there really is a nail.

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¹Burkina Faso, Ethiopia, Kenya, Malawi, Mali, Mozambique, Rwanda, Tanzania, Uganda, and Zambia.

A Blueprint for a National Energy and Climate Council

A Condensed Case Study

John Podesta

President and CEO,
Center for American Progress

The new president of the United States is confronted with the greatest energy and climate challenge in history. He has inherited a failing domestic and international energy system that is plagued by volatile oil and food prices, political instability, outdated infrastructure, and more.

Most alarmingly, this energy crisis is paired with a severe climate crisis that will affect every aspect of our lives in ways that we simply will be unable to ignore. According to the reinsurance company Munich Re, the financial cost alone of extreme weather caused by climate change could exceed \$150 billion annually within a decade. Moreover, we will live in a severely destabilized world plagued by deadly food and water shortages, large-scale human migration, intensified intra- and inter-state competition for scarce natural resources, increasingly frequent and severe disease outbreaks, and more failed states.

These are not temporary crises that we simply have to endure and wait for them to pass. Rather, they are permanent features of the prevailing system of fossil fuel use, and they will only intensify unless we succeed in developing and implementing a fundamentally new energy and climate paradigm for the United States and the rest of the world.

The new administration will succeed in meeting this challenge only if it is capable of executing a strategy that will simultaneously:

- Accelerate America's transformation to a low-carbon economy;
- Reduce America's dependence on imported fuel;
- Spur innovation to sustain productivity growth and job creation;
- Build effective relationships and partnerships with the private sector;

- Establish an authentically global framework (which must include acceptable commitments from China and India) for addressing the climate crisis;
- Avoid or mitigate unintended consequences, such as increased food prices for the world's poor; and
- Invest carefully in adaptation both domestically and internationally.

When understood in these terms, the scope and scale of this challenge become evident. An undertaking of this nature will only succeed if it is established as a clear presidential priority and if the White House is organized accordingly.

One solution is to create a new National Energy and Climate Council that will have the stature and capacity to drive and coordinate the activities of the numerous departments and agencies that will play a critical role in this energy transformation.

As with the National Economic Council that was established by President Clinton in 1993, the National Energy and Climate Council should be located within the White House Office in the Office of Policy Development.

In order to signal the importance of this new body, the president should:

- Appoint a national energy advisor to head the new council, who is of equal stature to the national security advisor and the national economic advisor;
- Establish by executive order that the National Energy and Climate Council includes the secretaries of key cabinet agencies (such as Energy, State, Defense, Commerce, Homeland Security, Labor, Agriculture, Transportation, Interior, and Treasury), as well as the heads of the other departments and agencies that will play a central role in our country's energy transformation: the administrator of the Environmental Protection Agency,¹ the directors of the National Science Foundation and the Office of Science and Technology Policy, as well as a newly-created chief technology officer.

The National Energy and Climate Council should be responsible for coordinating several interrelated strategies that will cut across numerous departments, including:

- A national carbon reduction regulatory strategy;
- A research, development, and demonstration strategy;
- An international negotiation strategy for a post-Kyoto Protocol climate change agreement;

- A technology innovation strategy;
- State-level carbon reduction and adaptation strategies;
- A legislative strategy to pass an aggressive cap-and-trade bill and complementary policies;
- An international development strategy to reduce energy poverty; and
- A military strategy for coping with a potentially significant increase in the frequency and scale of weather-related disaster-relief operations undertaken by the United States, both domestically and internationally.

Given that a failure to act decisively on this matter in 2009 will put our country and the world on an even more costly and dangerous trajectory than the one we are currently on, the new president must ensure that energy transformation will be a top priority for the entirety of his time in office and that it will be approached, as it must be, in a truly urgent and comprehensive fashion.

John Podesta is President and CEO of the Center for American Progress and Visiting Professor of Law at the Georgetown University Law Center. Mr. Podesta served as Chief of Staff to President William J. Clinton from October 1998 until January 2001. As Chief of Staff, he served on the President's Cabinet and as a principal on the National Security Council. From 1997 to 1998 he served as both Assistant to the President and Deputy Chief of Staff. Earlier he was Assistant to the President, Staff Secretary and a senior policy advisor on government information, privacy, telecommunications security, and regulatory policy. Mr. Podesta previously held a number of positions on Capitol Hill, including Counselor to Democratic Leader Senator Thomas A. Daschle; Chief Counsel for the Senate Agriculture Committee; Chief minority Counsel for the Senate Judiciary Subcommittees on Patents, Copyrights, and Trademarks; Security and Terrorism; and Regulatory Reform; and Counsel on the Majority Staff of the Senate Judiciary Committee. He is a graduate of Georgetown University Law Center and Knox College.

¹ Note: It is important that the president recognize that the EPA will be the principle instrument for achieving many of his domestic carbon reduction goals. In *Massachusetts v. EPA* (April 2007), the Supreme Court ruled that CO₂ was a pollutant under the Clean Air Act, and therefore the EPA has the power to regulate CO₂ emissions from cars and trucks. By extension, the EPA has the authority to regulate pollutants from stationary sources, which will empower it to regulate carbon-intensive coal-fired power plants and industrial sources, as well as to create emission credit trading schemes.

“The difficulty the United States encounters in engaging certain problems or hotspots stems, in part, from a government structure and bureaucracy built around a world that no longer exists.”

—KURT M. CAMPBELL, JONATHON PRICE

Concluding Observations

Kurt M. Campbell

Director, Aspen Strategy Group

Jonathon Price

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In the early months of 2008, the ASG was thinking through the national security challenges that would face the next administration. There was no shortage to choose from. We could have focused on a way forward in Iraq and Afghanistan, or countering nuclear states such as Iran and North Korea, or perhaps the implications of Russia's new muscular foreign policy. However, we chose instead to focus on the structure and makeup of the U.S. government—hardly a topic at the forefront of the presidential debates or in Washington circles at the time. All the same, this subject matter is central to all of the crises listed above. By analyzing the current system, and looking for areas of reform, we hoped to provide greater context and understanding for a new administration on how the U.S. government functions, and where it fails, in terms of dealing with a broad range of traditional and emerging challenges.

Thus, over five days in August, ASG members and invited guests turned their collective attention to assessing the instruments and institutions of American power and purpose. Our goal was to undertake a thorough accounting of the capabilities and limitations of the key organizations—diplomatic, military, financial, and intelligence—that American policymakers rely upon to address global challenges. Through the papers commissioned for the conference, presented as chapters in this book, the group took a hard look at the key institutions that make up the foreign policy and national security establishment of the United States, including the Department of State, the Department of Defense, the Directorate for National Intelligence, the Department of Treasury, and others. Our sessions consisted of in-depth discussions about whether the U.S. government is configured for success in the complex world in which we now live. The debate in Aspen centered not only on the questions of when and how institutions should be reformed, but demanded an assessment of how the world has changed and whether the U.S. government structure is configured to handle this transformation.

With the world showing signs of becoming increasingly interdependent, largely due to the expansion and acceleration of advanced technology in the defense, communications, and transportation sectors, the 21st century presents a number of nuanced challenges for the United States. America's last defined era came during the decades of the Cold War, when the overarching deterrence strategy, though originally based on the idea of defeating Soviet ideology, ultimately focused on the physical, nuclear threat of the Soviet Union. Deterrence flourished in this bipolar environment, characterized by the United States' and the Soviet Union's shared distrust and theory of mutually assured destruction.

The bipolar world that defined the Cold War gave way to an era of rising globalization. This transformation, though bringing many positive changes, has also introduced a host of new challenges. Prior to the 21st century, national security concerns were largely confined to preventing physical attacks from foreign states. However, as the world becomes intricately connected, the Aspen Strategy Group questioned whether the very definition of national security was drastically changing. As 9/11, Islamabad, and the recent Mumbai attacks demonstrate, traditional state-to-state attacks are not the only national security risk; states now need to contend with the proliferation of terrorist attacks, which are almost impossible to control due to the nature of their perpetrators. Along with the threat of terrorism, nuclear proliferation and climate change have become major transnational issues. Energy security is also a major priority, with most of the world dependent on the importation of foreign oil, largely from unstable regions and unsavory regimes.

The difficulty the United States encounters in engaging certain problems or hotspots stems, in part, from a government structure and bureaucracy built around a world that no longer exists. The very nature of these transnational challenges means that the U.S. needs to shed its Cold War mindset and find a way to engage foreign countries in order to mitigate these threats. Although it has attempted to do so, the United States cannot unilaterally end terrorist attacks. Similarly, even if the United States tries to eliminate its share of carbon emissions, the decrease would only account for twenty-five percent of the emissions contributing to the phenomenon of global climate change. Now, more than ever, America's cooperation with industrial countries such as China and India is essential to meet modern global challenges. As America reaches out, it must have solid government structures that facilitate cross-sectoral work and are designed and prepared to meet today's challenges.

Through the chapters in this volume and the discussions in Aspen, several elements came to the fore in how the next administration must think through cataloging, applying, and altering the tools and agencies at its disposal.

I. Orchestrating the Instruments of American Power

Today's complex missions require policymakers to employ instruments of American power in an orchestrated manner. The tools at America's disposal are many—and can be used in a number of combinations and variations, depending on the situation. Unfortunately, these instruments, which include economic sanctions, the use of force, and diplomatic negotiations, reside in different institutions and have amassed support from very different constituencies. Thus, interagency cooperation and coordination is not easily accomplished.

To achieve harmonious action, communication between the agencies must occur openly and regularly. Rather than dissolving into traditional turf battles, these discussions must include an adequate assessment of the instruments available and a common strategic approach that allows the United States the options of multiple instruments and corresponding uses at just the right times. Only with frequent, candid discourse and a push from the White House will agencies break down the barriers that impede collaborative efforts.

II. People Matter

No matter the agency or instrument, there is one common resource that lies at the center of its ability to function—the men and women who serve within the department. However, current efforts to recruit and retain the most qualified individuals are lacking. The Department of State, which has fewer Foreign Service officers than military band members, currently has 1,100 job openings around the world; to fill these positions would cost Congress an amount equal to that of a single C17 transport plane.¹ But inadequate funding is only part of the problem.

With recent high-profile confirmation hearings, a dangerous perception has emerged that entering government service opens an individual's finances or reputation to impossible standards and relentless scrutiny. Several Obama administration nominees have experienced this first-hand. Two cabinet nominees withdrew their names for consideration after it was revealed they owed back taxes and another withdrew once it became known he was under investigation.

The confirmation process poses another roadblock. The current process is both complex and time consuming. Given that a government in transition faces unique vulnerabilities, the confirmation process should be restructured to expedite the procedure for filling key government positions. President Obama's nominees are trying to best the historical confirmation curve. Obama, on inauguration day, had one fewer cabinet member confirmed than George W. Bush did in 2001. In contrast, Reagan had twelve of fourteen confirmed within two days of his first

inauguration and Bill Clinton had thirteen of fifteen confirmed within one day. These trends must be reversed and the hurdles to confirmation lowered if the U.S. is to minimize both the scope and duration of its vulnerability during periods of government transition.

Finally, the challenges confounding America require a long-term sustained and supported effort. While emphasis is placed on immediate needs, we cannot neglect the future. The creation of a Presidential Service Corps could build a capacity to select, educate, train, and integrate the next generation of government servants.

III. Provide the Resources for the Mission (Not the Mission to the Resources)

Another resource that is critical for any agency is also one of the most complicated to secure—funding. As purveyor of the purse, Congress is crucial to the success of any mission. Congress must be continually consulted by agencies on their directives, missions, and priorities so that it can provide not only advice and consent but consistent resources at an appropriate level for the mission.

Equally important are the officials from the Office of Management and Budget (OMB), who must be in the room during deliberations involving the executive, the Congress, and other government institutions. OMB's mission, "to set funding priorities and assess competing funding demands among agencies," directly impacts multi-agency operations, particularly in a climate where institutions are in competition for funds.

Unless and until a better system is devised, these three components—the executive, the legislative, and the personnel of OMB—must be intricately interwoven if the U.S. government is to address today's multi-dimensional problems.

IV. Coordinating for Action

In ASG discussions, one theme that kept returning to the fore was the need for a body with a true mandate to coordinate the constellation of agencies and departments of the government. Currently, this coordination occurs in the National Security Council (NSC) and Homeland Security Council (HSC). While the NSC's responsibilities technically stop at the water's edge and the HSC handles domestic threats, the U.S. faces challenges that are not so clearly delineated. Moreover, these threats are multi-faceted and require a coordinated, multi-agency response. The Obama administration, in recognizing this, has subsumed some HSC functions into the NSC, though the fate of the HSC is still undetermined. The assistant to the president for national security affairs, for example, was specifically created

to act as an “honest broker” and solely represent the interests of the president. As inter-agency cooperation increases, so does the need for advisors to provide information to the president through an unfiltered, unbiased lens.

Further, a National Economic Council (NEC) coordinates policymaking for domestic and international economic issues and coordinates economic policy advice for the president. The NEC ensures that policy decisions and programs are consistent with the president’s economic goals, and monitors implementation of the president’s economic policy agenda. The recently surfaced National Energy Council, while demonstrating both the importance of energy and the president’s direct attention to the issue, will add a new layer to the interagency debate.

Yet each council faces the same constraint—namely the limits of the president’s available time. While several different coordinating body models are presented in this volume, and their merits and points of dissention are discussed, they share a common objective: to advise and assist the president in making policy and to coordinate these policies among various government agencies.

V. Relentless Prioritization vs. Impossible Prioritization

As the administration wrestles with the best way to organize its government and execute its decisions, it cannot forget about those threats that lie over the horizon. To deal with the proliferation of global pinpricks, the U.S. will need to establish an organization responsible for long-term planning. Such an institution should have the ability to balance the constant fluctuation of urgent and important problems and the capability to set national security priorities. While election cycles and brief transition periods pose unique policy challenges, effects of discontinuity in policy can be marginalized because these cycles are known.

Since the 1947 National Security Act, the United States has lacked a continuous, long-term planning capability. But certain administrations, such as President Eisenhower’s, and individuals, like Henry Kissinger, have demonstrated that long-term planning can be achieved. Moreover, some agencies have proven better than others at strategic planning. The Department of State houses a policy planning office and the Department of Defense has its own think tank, the Office of Net Assessment. There must be a philosophical shift that asks each agency not only to coordinate immediate actions, but to work together in long-term planning to see where American power might be applied down the road to achieve desired outcomes.

An equally potent challenge is how to respond to the dynamic shift between urgent and important problems. Ever-evolving and newly emerging threats require instant analysis and flexibility for action. To achieve this delicate balance, the

U.S. government must set priorities and articulate a grand strategy. Priorities are required because resources are finite and dispersed across multiple agencies, which are not accustomed or structured to use funds in coordination toward a common goal. With the collapse of the Iron Curtain, the need for containment disappeared, and with it America's grand strategy. Since then, the U.S. has been unable to create a beacon with which to guide its foreign policy. This equation is solvable through prioritization and a mutual shared vision, which involves comprehensive interagency coordination and planning.

VI. Presidential Leadership

The broadening of executive power over the last eight years has led to a perception that all coordination and planning by the government is done by the White House and the responsibility lies with just one person. As President George W. Bush famously and succinctly stated, "I'm the decision maker."² While he spoke specifically about Iraq, his statement has some validity. However, behind every decision lie a host of advisors, each directly responsible for providing unbiased information to the president. Beyond the advisors lie the agencies, charged to carry out the law and policy of the United States.

Effective and efficient policy implementation is not easy and will require a combination of the strategies and suggestions outlined here and across this book. At present, countless stovepipes make up the government's institutional architecture and limit the functionality, inter-operability, and capability of policy execution. The president must lead and direct institutional reform. With so many new transnational problems looming on the horizon, he can't afford not to.

¹ *CSIS Commission on Smart Power: A Smarter, More Secure America* (Washington, D.C.: CSIS, 2007), 62, http://www.csis.org/media/csis/pubs/071106_csissmartpowerreport.pdf

² Michael Abramowitz and Jonathan Weisman, "Bush Defies Lawmakers to Solve Iraq," *Washington Post*, January 27, 2007.

