A New U.S. Grand Strategy

Why walkable communities, sustainable economics, and multilateral diplomacy are the future of American power.

BY PATRICK DOHERTY | JANUARY 9, 2013

The strategic landscape of the 21st century has finally come into focus. The great global project is no longer to stop communism, counter terrorists, or promote a superficial notion of freedom. Rather, the world must accommodate 3 billion additional middle-class aspirants in two short decades -- without provoking resource wars, insurgencies, and the devastation of our planet's ecosystem. For this we need a strategy.

The status quo is untenable. In the United States, the country's economic engine is misaligned to the threats and opportunities of the 21st century. Designed explicitly to exploit postwar demand for suburban housing, consumer goods, and reconstruction materials for Europe and Japan, the conditions that allowed it to succeed expired by the early 1970s. Its shelf life has since been
extended by accommodative monetary policy and the accumulation of household, corporate, and federal debt. But with Federal Reserve interest rates effectively zero, Americans' debt exceeding their income, and storms lashing U.S. cities, the country is at the end of the road.

Abroad, Washington's post-Cold War pattern of episodic adventurism and incremental crisis management only creates further uncertainty, and rising powers will not lead. Other major economies have little appetite for altering the global order and hence are doubling down on the old system, exacerbating trade imbalances and driving record resource extraction. As commodity prices rise, global powers are hedging ever more aggressively -- stockpiling resources and increasingly becoming entangled in conflicts in resource-rich areas. As the global economy falters, unrest rises and the great unresolved conflicts of the 20th century -- the Middle East, South Asia, North Korea, Taiwan -- grow increasingly enmeshed in the power dynamics of this new era.

Simply put, the current U.S. and international order is unsustainable, and myriad disruptions signal that it is now in a process of collapse. Until the United States implements a new grand strategy, the country will face even more rapid degradation of domestic and global conditions.

This is not an over-the-horizon danger. The interplay of four strategic antagonists is causing Americans daily harm.

**Economic Inclusion**

The ranks of the world's nouveaux riches are swelling. The planet is on track to welcome 3 billion new members of the global middle class in the next 20 years. For those fortunate enough to climb out of poverty, advancement translates into a 300 percent increase in income and resource consumption.

That's great for each individual, but as a whole, it will strain our planet to the breaking point. We are not ready to meet the needs of this new middle class: Over the last 20 years, the world absorbed just 1 billion new consumers. Commodity prices, which have risen more than 300 percent over the last decade, are poised for further gains -- and we know that when the prices of strategic commodities rise sufficiently, markets do not adapt so much as states intervene to gain or preserve access to them, whether energy, water, food, or strategic minerals.

**Ecosystem Depletion**

Human activity has disrupted the equilibrium of the Earth's planetary systems. We are emitting too much carbon, we are changing the chemistry of both freshwater and saltwater bodies, and we are overconsuming the natural capital we rely on to produce life-giving ecosystem services.

We are straining our planet to the breaking point, risking abrupt changes to the ecosystem. Climate change is the most pressing: Hurricane Sandy; droughts in the American Midwest, India, China, and Russia; accelerated Arctic melting; and record temperatures are just this past year's headlines. With no further change in policy, we will see 6-degree Celsius warming by the end of
the century. Well before 2050, we will face widespread food insecurity, economic disruption, mass human migration, and regional war as these critical systems degrade further.

**Contained Depression**

The United States is not experiencing a mere business-cycle downturn -- this is a "**contained depression.**" The 2008 financial crisis triggered a broad deleveraging (debt crisis) across households and businesses. Incomes failed to service record levels of consumer and corporate debt, further reducing employment and in turn reducing revenues to state and federal governments.

While Federal Reserve policy, the TARP bailout, and the stimulus bill have contained the worst of the economic pain, the limits of monetary policy are in sight. The federal funds rate is effectively zero; quantitative easing is merely propping up asset prices to contain unemployment; and Fed Chairman Ben Bernanke's "maturity extension program" has now expired, after trading $667 billion in short-term securities for longer-term notes. Meanwhile, American households and businesses **have only begun** to address their deep indebtedness.

Bernanke and his colleagues cannot generate the circumstances necessary to end the depression - - **reviving aggregate demand** and **restoring** the economics of lending and equity investment. Congress can't either, as pumping more stimulus dollars into the economy or fixing the federal debt won't do the trick. Consumer preferences have shifted such that pumping more money into fixing old infrastructure or directly into citizens' bank accounts will have no lasting effect beyond propping up the old, unsustainable economy and adding to deficits. In the short and medium terms, borrowing rates for the U.S. government will remain low and will not crowd out private lending, meaning the extraordinary amount of political attention being paid to long-term entitlements is misplaced.

Well before the country hits the entitlement wall, the economy is at great risk of deepening its austerity spiral as businesses shed employees to appear more profitable to shareholders. That will further reduce household incomes, decreasing demand and government revenue in turn. Meanwhile, extended American economic weakness will only exacerbate the global macroeconomic risk from the eurozone to China.

**Resilience Deficit**

The systems, supply chains, and infrastructure that connect our markets are fragile and **prone to disruption.** Today's "value chains" are designed to increase efficiency but have little redundancy. Take the March 2011 Japanese tsunami, for instance: This natural disaster curtailed production of auto parts used by all six major American and Japanese automakers, shutting down production plants across the United States and helping to **drive up** unemployment from 8.9 to 9.1 percent. In October 2011, **floodling in Thailand** led to global disruptions in U.S. computer manufacturing. Around the same time, China shut off exports of rare-earth minerals -- it produces 95 percent of the global supply -- for three months. As a result, prices for light bulbs, wind turbines, and batteries **spiked.**
It's not just supply chains. Infrastructure arrears in the United States alone stand at $2.2 trillion. And that is just to get the bridges, roads, railways, schools, ports, and airports that undergird the Cold War-era economic engine up to standard. America's food system periodically spreads E. coli and other pathogens across the country. And in 2008, we watched as toxic mortgage-backed assets from the American market spread globally, contributing to disruptions from the Royal Bank of Scotland to the Greek treasury.

These four challenges -- inclusion, depletion, depression, and resilience -- are the four horsemen of the coming decades. They will determine both economic performance and geopolitical threats. Worse, they are interdependent: We cannot accommodate 3 billion new consumers without addressing climate change, America's austerity spiral, or the design of the country's outmoded infrastructure. It is, as the engineers say, a wicked problem. Yet, large though it is, America has a tool for addressing this scale of challenge.

**A Return to Grand Strategy**

For the United States, a grand strategy is a generation's plan to create the global conditions necessary for the country to pursue the great purposes set forth in the preamble of the U.S. Constitution. It looks at the world, it looks at America, and it defines the broad path the country must take to advance its most sacred objectives.

Throughout U.S. history, grand strategy has navigated between two unacceptable extremes: Empire America and Fortress America. Being an empire -- governing other lands and peoples outside the U.S. Constitution -- is an affront to America's core principles of democracy and self-government. Isolationism, in turn, risks the certain rise of unacceptable threats to commerce, security, and basic American values.

To meet the global challenges of World War II and the Cold War, U.S. leaders innovated in the design of grand strategy. As practiced by Presidents Franklin D. Roosevelt, Harry Truman, and Dwight Eisenhower, grand strategy became the correlation of America's economic engine, its foreign policy, and its governing institutions to meet the great global challenge of the era.

In both World War II and the Cold War, the secret to America's success was that the country harnessed its economy to do the heavy lifting. In World War II, America became the Arsenal of Democracy, outproducing the Axis. The country enlisted its industry to arm and equip its allies while building up its own military from 450,000 troops to 16 million; it aggressively pursued the war aims enshrined in the Atlantic Charter; and it reorganized government to enable it to pursue both aims. In the Cold War, America could not defeat the Soviets militarily, so it organized a system of containment to best them in a longer-term contest of economic and political systems.

And best them America did. To ensure the Soviets' defeat, Truman and Eisenhower did not leave the economic contest to any invisible hand. Rather, they systematically oriented the U.S. economy to take advantage of the demand in the system: suburban housing, consumer goods, and reconstruction materials for Europe and Japan. By living the American Dream, Americans helped stop Soviet advances.
By the time candidates John F. Kennedy and Richard Nixon debated in 1960, Eisenhower's grand strategy had fused with America's cultural DNA -- it was fully adopted and internalized by both political parties, corporate leadership, government bureaucracy, and the American people. Since the Soviet Union's 1991 collapse, however, the United States has failed to identify, adopt, or implement a revised grand strategy.

Instead, over the past 20 years, the United States' default strategy has been to incrementally adjust national security and economic policies to defend and extend its Cold War economic engine. The result is the unsustainable U.S. and international order.

**A New Grand Strategic Concept**

In the face of the present danger and in the best tradition of the republic, America's response must be to lead. The country must put its own house in order and, with willing partners, author a prosperous, secure, and sustainable future. The task is clear: The United States must lead the global transition to sustainability.

While some great powers and world capitals have been warning of these dangers for some time, it is clear that the effort ultimately requires an upgrade to the current international system. This will require the kind of principled, consistent leadership and hard-nosed geopolitics that only America, at its best, is able to deliver.

America must once again start at home. For a limited time, it will be able to transition its economy to generate sustainable prosperity from deep pools of demand and underutilized capital. Once America commits, with its credibility on the mend and its economy as a wind at its back, it must then lead a new global partnership of major economies to adapt the international order. The halting logic of unwieldy climate negotiations will be supplanted by harnessing the greater force of economic self-interest: The United States will have to work with its partners to forge, implement, and verify a durable transition framework among the world's major economies.

Throughout the transition, America will have to build and strengthen capable partners to provide basic security assurances. Political boundaries will only change through a transparent process of self-determination; global commons will remain open and secure; and sovereignty will be limited only by the responsibility to protect.

This isn't going to be easy. To achieve all this, Washington must redesign its institutions of governance, consistent with the U.S. Constitution, to ensure that government has the appropriate authorities and capabilities, and no more, to implement this strategy at home and abroad.

**U.S. Economic Policy**

The primary tools of traditional macroeconomic management -- managing the money supply on the one hand and budgetary stimulus or austerity on the other -- are no longer sufficient to generate economic growth.
Central bankers in the United States and abroad are calling for politicians to step up with broader economic policy. Economists from Bernanke to New York Times columnist Paul Krugman agree that the predominant factor driving long-term unemployment is weakness in aggregate demand. Fortunately, due to large-scale demographic shifts over the past 20 years, the United States is sitting astride three vast pools of it. It is now imperative to design a new economic engine to exploit this demand while restoring America's fiscal health.

Walkable communities: The first pool of demand is homegrown. American tastes have changed from the splendid isolation of the suburbs to what advocates are calling the "five-minute lifestyle" -- work, school, transit, doctors, dining, playgrounds, entertainment all within a five-minute walk of the front door. From 2014 to 2029, baby boomers and their children, the millennial generation, will converge in the housing marketplace -- seeking smaller homes in walkable, service-rich, transit-oriented communities. Already, 56 percent of Americans seek this lifestyle in their next housing purchase. That's roughly three times the demand for such housing after World War II.

The motivations are common across the country. Boomers are downsizing and working longer, and they fear losing their keys in the car-dependent suburbs. Millennials were raised in the isolated suburbs of the 1980s and 1990s, and 77 percent never want to go back. Prices have already flipped, with exurban property values dropping while those in walkable neighborhoods are spiking. Yet legacy federal policies -- from transportation funding to housing subsidies -- remain geared toward the Cold War imperative of population dispersion and exploitation of the housing shortage, and they are stifling that demand.

Regenerative agriculture: To meet rising population and income levels, the world needs to increase global food production by 60 percent by 2050, and 100 percent of that new total will need to be regenerative -- restoring our soils and cleaning our waterways in the process. For the American farmer, the increase in demand is already translating to record prices, but the heartland is held back from capturing the additional gain from regenerative methods -- up to three times the profits per acre and 30 percent higher yields during drought -- because of federal policy set in 1972.

It is time to restore America's heartland. Instead of depleting soils and polluting rivers, the country will adopt modern methods that will bring more land into cultivation, keep families on the land, and build regional food systems that keep more money circulating in local economies.

Resource productivity: To bring 3 billion new middle-class aspirants into the global economy requires a revolution in resource productivity. Energy and resource intensity per person will have to drop dramatically -- while simultaneously delivering on the improved income and lifestyle expectations that come with global connectivity.

That revolution will drive the logic behind a new engine of innovation in material sciences, engineering, advanced manufacturing, and energy production, distribution, and consumption. In the United States, the high-wage, high-skill jobs emerging from this revolution will restore and strengthen America's middle class for decades.
**Excess liquidity:** U.S. policy will be to channel excess liquidity -- now held as corporate cash or seeking refuge in the bond market bubble, money market funds, and underperforming sovereign wealth funds -- toward the full spectrum of possible investments for America's changing economy. Taxes will shift from work to waste while favoring sustainable, long-term investment. New, regional investment banks will be formed to provide the interface between investors and regional growth strategies, bundling and marketing securities that provide the cash flow necessary for sustained innovation and transition across multiple local jurisdictions, while keeping more capital circulating in local economies. As a result, government investments in critical infrastructure can be reduced -- dropping well below the 80 percent level associated with the federal share of highway infrastructure.

**Stranded hydrocarbon assets:** As Americans realize their walkable American Dream, as farmers make more money feeding the world with regenerative farming, and as the United States rebuilds its middle class, employment and prosperity will rise and America's carbon emissions will drop. The country can do well and do good.

It must, however, also do more. The scientific community insists we must calibrate our policy to keep global warming within a 2-degree Celsius upper limit. This strategy will tune U.S. domestic and foreign policies to do so.

With no further action, however, markets will begin to devalue the unburnable proven hydrocarbon assets on the books of publicly listed companies and state-owned energy producers the moment such a policy is declared. The resulting shock to hydrocarbon energy companies, which make up roughly 11 percent of the S&P 500 index, would pose a systemic risk to domestic and global markets. Globally, the top 200 hydrocarbon companies have a combined value of $7.42 trillion, and some estimates value the total stranded asset pool as high as $20 trillion, or 40 percent of global GDP.

It is imperative, therefore, for the United States to convene domestic and global stakeholders to manage this market transition to avoid such an unacceptable disruption in global markets, index funds, and Americans' retirement security. Washington should work with industry, scientific leaders, and other key stakeholders to negotiate a framework and predictable timetable to minimize the downside risk, to find non-emitting uses for hydrocarbons, and to turn the transition into another driver of innovation while redirecting investment flows into other market segments.

**U.S. Foreign Policy: A New Global Partnership**

With America's domestic house in order, the United States will be in a position to lead the global transition to sustainability. While the United States cannot achieve global sustainability alone, it need not convince its partners of the challenges we all face. Most of the world's major economies have already identified economic inclusion and ecosystem depletion as first-order strategic challenges. With a robust new economic engine changing America's global interests, the commitment, scale, and pace of its economic engine will allow it to convene the world's major economies in a forum to establish and implement the norms necessary for an orderly transition to global sustainability. These new norms fall within the following categories:
**Regional convergence:** Regional-scale economies, such as the United States, China, India, and Europe, are the primary actors in today's global economy. All are unsustainable, and each requires a tailored internal economic strategy to reduce trade imbalances, manage debt, and reverse overconcentration of global production.

Meanwhile, smaller countries' economies have often found themselves caught between these giants -- becoming dangerously dependent upon them and drained of their resources, wealth, or human capital. Without the advantage of scale, most of these countries have little practical chance of achieving the kinds of economic growth that will meet the expectations of their citizenries. This inadequate, two-tier design is only exacerbating our continued unsustainability.

Every continental-scale economic region must embark on a decisive sustainability strategy without delay. Working within existing norms of the World Trade Organization and the United Nations, America will lead the partnership of major economies to refashion the global economic system around eight or nine economic blocs, each boasting the scale necessary to support mature industrial ecosystems. This will mean promoting and strengthening regional economic blocs such as the Association of Southeast Asian Nations, the Union of South American Nations, the African Union, the Commonwealth of Independent States, and the Organization of Islamic Cooperation.

**Development:** It is not only the United States that needs to get its house in order. Within all regional-scale economic areas, the country will work with the global partnership to promote a mode of development that results in prosperity, security, and sustainability for their citizens.

Export-led growth and resource-extraction strategies will no longer suffice. Housing, agriculture, and resource productivity will be the drivers of sustainable economic development, producing jobs, investment, and government revenue. While each region will have a unique starting point, global income convergence will unleash substantial trade opportunities as each region develops robust internal markets. Solutions pioneered in one region will find markets in others. As multiple regions create advanced manufacturing capability, global supply chains will become more dynamic and resilient.

**Access and participation:** Most of the world's population still does not have access to the formal sector of its local market and therefore cannot participate in this great global project. A whopping 4 billion citizens do not have access to basic market tools: They do not have identity papers, title to property, or access to courts, banks, credit, or insurance. Until these people get the economic franchise, we will be unable to realize the goal of global sustainability.

Egypt presents a case study of this phenomenon. In the world's largest Arab country, 90 percent of real estate is held outside the formal sector. As a result, there is no effective housing market -- and with a bulge of young people looking to start families, Egypt's underlying economic crisis will continue to fester.

We cannot allow this to continue. Closed, dysfunctional, or corrupt markets cannot be harnessed to meet the kind of strategic economic challenges we face today. The United States will work
with the world's major economies to rapidly extend universal access to basic market tools and establish full economic participation as a global norm.

**Assurance through transition:** The great threat to American security in the coming decades of the 21st century stems from the unsustainability of the international order.

Although addressing this threat is primarily an economic and geopolitical exercise, the U.S. national security establishment must ensure that economic and political actors have sufficient space and time to adapt the system at home and, in partnership, abroad. The mission of America's national security establishment in this new era must be to maintain and extend that space while providing, to friend and foe alike, a credible assurance that America is committed to, and will actively promote, a rules-based international order.

Multilaterally when possible, unilaterally if necessary, America will work to ensure that borders, global commons, and basic standards of human rights will be respected by all countries. The transition to sustainability will be a complex and dynamic undertaking. Its political impact will be unprecedented: Borders, many set during colonial rule, will come under strain. America will work with its partners to ensure that any borders that are changed are done so by mutual consent and self-determination, not by violence or coercion. It will assert its right of access to the global commons as much as it will honor its responsibility to respect them as a sustainable platform for navigation, commerce, and ecosystem services. Finally, the United States will continue to insist on all countries' respect for basic human rights, and it will accept the global responsibility to protect against their gross and systematic violation.

American policy will be to reduce global demand, over time, for U.S. military intervention by building capable regional security partners wherever possible -- though the United States will maintain and position expeditionary forces commensurate with objective global risks.

**U.S. Governance**

Just as America would never fight a 21st-century war with Korean War-era weapons, it should not govern today with institutions devised for a bygone era. The Founding Fathers established a constitution that allows for the adaptation of the institutions of government to the knowledge, threats, and opportunities confronting each generation. Americans should make use of that foresight. Under this strategy, the country will adapt the institutions of its federal government to execute this grand strategy and invest in the American people to ensure that they receive the opportunities they need to be informed and engaged citizens.

**Governing institutions:** Today's executive branch was largely designed to support the country through the Cold War, and it is misaligned to the requirements of the 21st century. The U.S. national security establishment can barely see the challenges of today, let alone predict the crises of tomorrow. America's domestic departments are designed to support an economic strategy that is now weakening the country. Congress is supposed to oversee this system, but it too cannot rise above the noise. The White House, meanwhile, has not maintained a robust strategic capacity since 1961.
Just as the 1947 National Security Act adapted the U.S. national security establishment to take on the Cold War, the country will adapt again to implement and manage this strategy. It will reorganize agencies and departments to execute the elements of this strategy. Congress will be encouraged to align its oversight committees to the new federal departments.

In peacetime, U.S. foreign-policy agencies -- providing defense, diplomacy, development, and intelligence -- will align around one map and fall under integrated civilian control at the global, regional, and country levels. Domestically, the United States will clear out the economic policies of the past and ensure that housing, agriculture, and resource productivity are incentivized and regulated to ensure fair, robust, and open markets with strong consumer protections.

Opportunity society: When Americans are secure, they are the most productive and engaged in the world. The United States will recommit itself to making world-leading investments in the American people, the country's greatest national resource.

Education, health care, retirement security, and scientific knowledge are the cornerstone of the opportunity society. With a new economic engine providing the private income and public revenue necessary for such investments, and with fiscal health restored, the country will examine and select the most effective models for ensuring world-class public education, achieving universal health-care coverage, and earning a worry-free retirement. Funding for basic science and early-stage innovation will be expanded significantly to keep America the leading research and innovation center in the world.

Minding American Strategy

America has never confronted a global challenge of the type or magnitude it faces today. If it does not change course, the United States will be racked by violent storms -- both figurative and literal -- as the global order breaks down. The country cannot delay. For a few short years, it has a window in which it can choose an incredibly prosperous 21st century, but that window will close. It is time once more to lead the world through difficult change.

The United States must first get its own house in order. It will adapt its industry. It will build a new American Dream. It will lead the world by example while defining the future and inspiring greatness. And America will do all this while emerging from an economic depression that is wasting its most precious resource -- its citizens' talents.

It is, as the great strategist George Kennan understood, the truest test of America's worth as a nation. And while some might say U.S. politics are not up to the task, the great purposes for which America's founders brought forward the United States endure: liberty, justice, the common defense, and the general welfare -- not only for ourselves, but also for future generations. These are the sacred goals of the United States, and they are calling a new generation to author a bold and uncompromising future that remains prosperous, secure, and sustainable.

To succeed, America must revive and update the discipline of grand strategy. It must create a civilian Office of National Strategy, within the executive branch, to organize the effort. The
country must, from this moment forward, expose the framework of U.S. national strategy to democratic scrutiny and adapt it as conditions evolve. By articulating and monitoring U.S. strategy, citizens and representatives can challenge its elements and refine the metrics, targets, and actions necessary for implementation -- and be less distracted by the loud voices of narrow interests.

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