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Earl H. Fry

Europe 1992 has become a major focus of attention for the Western media, because if all goes as planned, a unified and integrated common market of 12 nations and 320 million consumers will be created, a market running from the mountains of Mourne to the Peloponnese with a GNP rivaling that of the United States. Further east, the Kremlin is determined to put the Soviet Union's tattered economic house in order under Gorbachev's much ballyhooed *perestroika* strategy. And along Asia's Pacific rim, rapid growth may permit this region to match the productive capacity of both the United States and the European Community within the next two decades.[1]

Meanwhile, several prominent commentators have raised serious doubts about America's future global leadership role. Yale Professor Paul Kennedy insists that the United States has already seen its best days as a world power.[2] He offers the following admonition concerning the linkage between economic and strategic prowess: "For it has been a common dilemma facing previous number-one countries that even as their relative economic strength is ebbing, the growing foreign challenges to their position have compelled them to allocate more and more of their resources into the military sector, which in turn squeezes out productive investment and, over time, leads to the downward spiral of slower growth, heavier taxes, deepening domestic splits over spending priorities, and a weakening capacity to bear the burdens of defense."[3] A popular U.K. magazine, *The Economist*, observes that one big task facing President George Bush "is to help the country come to terms with its diminishing pre-eminence in the world, both as a military and, above all, as an economic power."[4] David Calleo dishearteningly adds that the "United States has become a hegemony in decay, set on a course that points to an

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ignominious end."[5] Tokyo-based Nikko Research stresses that "there are many unfavorable factors rooted deeply in American society, such as the declining work ethic, increases in crime, deterioration of education, as well as social discipline and order."[6]

Even the American people harbor some ambivalent feelings about their nation's future. About half optimistically believe that the Cold War is about to end and that Gorbachev is sincere in seeking much better relations with the West, and two-thirds no longer view the U.S.S.R. as an immediate military threat.[7] On the other hand, almost 60 percent perceive that Japan has now become the world's leading economic power, giving some credence to Richard Rosecrance's parallel observation that if "things continue as they are now, it won't be much beyond 2010 before Japan becomes the leading power in world politics."[8]

There is little doubt that some of this criticism directed at the United States is justified. In the economic arena, the U.S. share of the world export market has declined by 30 percent since 1950. Moreover, in the vital high-technology sector, U.S. trade moved into the red in 1986 for the first time in the post-World War II era. In addition, foreign corporations and individuals now receive almost 50 percent of all the patents issued by the U.S. Patent and Trademark Office, nearly twice the share of 1980.

Do such statistics indicate that America is destined to become a much weaker economic power in the 21st century, and how will America's strategic choices be impacted by the nation's overall performance in an increasingly interdependent global economy? Has Henry Luce's 1941 vision of the "American Century" actually ended after only three or four decades?[9] This article will reflect on these troubling questions.

In the next section, an examination will be made of the serious economic challenges now confronting the United States, followed by an assessment of the type of economic competition facing the United States across the Atlantic and the Pacific. The final section will explore Washington's policy-making dilemma as it attempts to balance pressing domestic economic needs with its strategic commitments as leader of the Western Alliance.

Unprecedented Economic Challenges

The United States now faces very severe economic challenges, some prompted by foreign competition, but most linked to weaknesses at home. Ten of the most significant problems are outlined below.

Government Deficits. In 1989, Congress was required once again to raise the "official" debt ceiling to $3.1 trillion, up 300 percent since 1980 and leaving each American citizen with a $12,000 share of the tab. These calculations do

not include the "unofficial" off-budget obligations of the U.S. government, which now total about $1.5 trillion.[10]

The U.S. Treasury is currently borrowing over $3 billion a week to keep the government running, and about 15 percent of the federal budget is devoted exclusively to servicing the mushrooming debt, up from 7 percent in 1980. Debt servicing is the fastest growing line item in the entire federal budget, with interest payments for fiscal year 1990 expected to exceed $180 billion. To put this in perspective, the interest payments in 1990 will be greater than the federal government's *entire* budget in 1967 during the peak of the Vietnam War, and more than current federal spending on education, science, transportation, agriculture, environmental protection, and public housing combined. Foreign governments now hold over $300 billion of this debt, with foreign individuals and corporations possessing another $80 billion. Nearly $25 billion was paid by the U.S. Treasury in 1988 to foreigners holding U.S. debt instruments.

Initially, the Gramm-Rudman legislation seemed to offer a glimmer of hope for reducing the annual deficit without precipitating a major recession. Unfortunately, elected officials have treated the Gramm-Rudman deficit-reduction targets as a sham. For example, at the beginning of fiscal year 1989, the Office of Management and Budget dutifully informed Congress that the deficit was projected to be about $146 billion, a figure which satisfied the Gramm-Rudman requirements. However, the final deficit wound up topping $152 billion, not including the expenditures taken off-budget to finance the S&L bailout and about $10 billion in on-budget Resolution Trust Corporation allocations which were not spent before the end of the fiscal year. However, neither the White House nor Congress was required to do anything to rectify the OMB's misguided forecast. Without the inclusion of the Social Security surplus, which is supposed to accumulate in order to provide for the huge number of baby-boomers who will begin to retire early in the next century, and the addition of the highway, airport, and other trust funds, the real deficit in fiscal year 1989 surpassed $250 billion.

In reality, Washington receives a "D-" grade in its efforts to cut back on government deficits; and in view of the need to bail out the savings and loan industry, clean up the nuclear weapons production facilities, and revitalize America's education system, the deficit outlook is very bleak indeed.[11]

External Debts. At the beginning of 1990, the United States owed foreigners well over $600 billion more than it owed Americans, an external debt which is far larger than the combined IOUs of Brazil, Mexico, Argentina, Venezuela, Poland, Yugoslavia, and Nigeria. The United States has the dubious distinction of being the world's foremost debtor country, in marked contrast to the period from World War I until the early 1980s when it ranked as the world's leading creditor nation.

Interest payments on this debt are mounting, and Washington has become heavily dependent on foreign central banks and foreign private investors to purchase U.S. government securities and to prop up the dollar.[12] About $150 billion per year is coming from overseas to assist the deficit-ridden federal government. On the opposite side of the coin, in 1988 Americans paid foreigners about $100 billion in interest, dividends, and rents, exceeding for the first time in decades what Americans earned on their investments abroad.[13] Unfortunately, much of this foreign borrowing has been used to fuel U.S. consumption rather than for infrastructure improvements and for research and development projects which would make the nation more competitive in the 1990s.

Trade Woes. The United States continues to rank as the leading trading nation on the planet, accounting for $780 billion in merchandise imports and exports in 1988. However, over the past five years, the red ink in U.S. merchandise trade surpassed $730 billion, the worst trade performance in the history of any nation, and far different from the uninterrupted period of trade surpluses which the United States enjoyed during the first seventy years of this century.[14] Moreover, West Germany, a country with less than one-fourth the U.S. population, actually surpassed the United States in both 1987 and 1988 as the global leader in exports. What is even more discouraging is that much of the U.S. trade deficit has accumulated at a time when the price of one major import, oil, has plummeted by more than half. Indeed, at the beginning of 1989, a barrel of imported oil in real terms was actually cheaper than just prior to the first oil shock of 1973.

Because of the growing interest payments on its foreign debt, the United States finds itself in the position of having to run a healthy surplus in merchandise trade in order to compensate for the huge deficit in the much broader current account balance. This will be a difficult feat for a nation which is so hooked on foreign products that in 1988, a record 25.3 percent of all goods consumed in the United States were imports.[15]

The Upsurge in Foreign Investment. The United States is now the number one host nation in the world for foreign direct investment (FDI), a type of investment which provides foreigners with a controlling interest in U.S. enterprises. As 1989 began, cumulative FDI in the United States was $329 billion, up by almost 400 percent since 1980 and by over 2500 percent since 1970. More than 3.2 million Americans are now working for these foreign-owned companies, and the list of foreign-controlled firms and products reads like a "Who's Who" of Americana: A&P, Alka-Seltzer, Baskin-Robbins, Bloomingdales, Burger King, Capitol and CBS Records, Columbia Pictures, Doubleday, Firestone, Geritol, MJB, Pillsbury, RCA Records, Rockefeller

Center, Saks Fifth Avenue, Smith & Wesson, Sylvania, Timex, Twentieth Century Fox, *TV Guide*, Westin Hotels, and Zale's.

Foreign investors now claim ownership of over half the U.S. cement and consumer-electronics industries, 4 of the 10 largest chemical companies, 20 percent of U.S. banking assets, and a rapidly expanding percentage of the machine-tool, record, and book-publishing companies. In addition, more Japanese automakers are now producing cars on American soil than U.S. companies, with Honda of Ohio ranking as the number one U.S. exporter of cars to Japan. Approximately 12 percent of the jobs in Delaware are supplied by foreign companies, and the Japanese alone provide 5 percent of all civilian employment in Alaska. Foreigners own over 50 percent of the commercial property in downtown Los Angeles, 39 percent in Houston, 32 percent in Minneapolis, and 19 percent in Denver. Over half of the 60 largest hotels along Waikiki are Japanese-owned. In all, foreigners have title to almost $1.8 trillion in U.S. assets, or roughly 5 percent of total assets and 10 percent of manufacturing assets.

Foreigners are investing in the United States for sound business reasons in an attempt to gain a larger share of the vast American market. However, the foreign presence translates into much more competition for American firms on their home soil, and a growing repatriation of profits from the U.S. affiliates to their overseas parent firms.

FDI will become an increasingly fractious issue in the United States because of the tremendous purchasing power of foreign investors.[16] With this in mind, Congress inserted a provision in the 1988 Omnibus Trade Bill which authorizes the president to void any foreign takeover of a U.S. enterprise for broadly defined national security reasons. A host of other bills restricting FDI activity were introduced on Capitol Hill in 1989. Of course, if too many restrictions are put in place, foreigners have the option of pulling their money out of the U.S. market and imposing reciprocal restrictions on U.S. investment activity abroad, either of which would provoke major disruptions in the American economy.

The Consumption Binge. Washington's infamous debt binge has been mirrored in most other sectors of American society. Total household, business, and government debt is up by nearly 200 percent over the past decade to almost $9 trillion. Credit card debt was $50 billion at the end of 1980 and $180 billion at the beginning of 1989. In the 1960s, businesses spent $1 of every $7 in earnings to pay the interest on their debt. In 1988, this figure approached half of total earnings.[17] Americans have recently consumed 3 to 4 percent of GNP above what they have been producing, and have relied on foreigners to fund the difference. The savings rate over the past couple of years has been about 4 percent of disposable income, the lowest since 1947, and two to four times below the rate in most other industrialized societies.[18]

Simply stated, many American businesses and consumers are living beyond their means and are paying little attention to the potential consequences of their spending fling. If America enters a period of high inflation, or a major recession, or worst of all, stagflation, the number of casualties in the consumer and corporate sectors would probably rank second only to the carnage of the Great Depression.[19]

A Fragile Banking System. America's major money-center banks would suffer dramatic losses if Third World countries were unable or unwilling to pay back their loans.[20] Among the Latin American debtor nations, about three-quarters of their combined external debt is owed to commercial banks, predominantly American institutions. At the end of 1988, America's nine major banks had loans outstanding to Latin American countries equal to 84 percent of their combined capital base.[21]

American banks and thrifts are sitting on almost $100 billion in foreclosed property and delinquent loans. The savings and loan industry is in a shambles, with 205 thrifts closed in 1988 and another 800 out of a total of 2,600 unable to comply with the new capital requirements which went into effect at the end of 1989. The Congressional Budget Office estimates that the Bush administration's bailout plan, which is pegged at $157 billion over a decade, may actually cost $360 billion over 30 years, with the taxpayers picking up at least 70 percent of the tab.

The banking system is in somewhat better shape, although the $18 billion in reserves held by the Federal Deposit Insurance Corporation (FDIC) could be depleted rapidly in the rescue of troubled banks in the Southwest. In 1988, 221 banks failed and the FDIC insurance fund suffered its first annual loss ever. At the beginning of 1990, almost 1 in 10 of the remaining banks was on the federal regulator's problem list.

Without any doubt, the U.S. banking and thrift system is in its worst shape since the 1930s, and its future is tied in part to the economic fortunes of struggling Third World countries.[22] Furthermore, some leading banks have rushed in to fund massive corporate leveraged buyouts (LBOs), a very risky proposition in the event the United States were to suffer through a period of recession or high interest rates in the near future.

Low-Paying Jobs. The United States has an excellent record in providing employment opportunities, with almost 32 million net new jobs created between 1973 and 1989 and with more than 20 million created in just the past seven years, more than the combined totals of Japan, West Germany, the United Kingdom, France, Italy, and Canada. Unfortunately, most of these new jobs offer relatively low wages. For example, from 1980 through 1986, the vast majority of new jobs created in the United States paid an average

annual wage between $9,063 and $13,647.[23] The government's official poverty line for a family of four at the end of that period was about $11,000.

Of the 20 million jobs expected to be created by the turn of the century, approximately 90 percent will be in the service sector, and a good share of these will be at the low end of the pay scale. As an illustration, Ohio currently spawns 17 new fast-food jobs for every new computer-programmer position.[24] Thus, the United States is saddled with many low-paying jobs at a time when hundreds of thousands of high-paying slots have been lost in basic manufacturing industries such as autos, steel, and machine tools, and in resource-based industries such as oil and copper.[25]

In addition, there are 19 million part-time workers in the United States, representing 16 percent of the entire work force. One in 5 of these workers heads a family, 8 in 10 are not covered by an employer's pension plan, and 1 in 5 has no health insurance whatsoever. These are the employees most at risk in the event of a major recession.[26]

The Uneven Economic Benefits of Federalism. Through much of the 1980s, the economic development rate of the Atlantic and Pacific coast states doubled that of the interior states, with over three-quarters of economic growth between 1980 and 1987 concentrated in the "bicoastal region" of California and the East Coast states. Especially hard hit were those states which are heavily dependent on agriculture, resource extraction, and traditional industries. For example, the United States created almost three million net new jobs in 1987, most of which were "bicoastal" employment opportunities; but during the same period Dallas lost 39,000 jobs, and several Mountain and Plains states experienced a net emigration of workers.[27]

In an effort to spur economic growth and compensate for a 40 percent decrease in transfer payments from Washington over the past decade, 41 American states have opened 110 offices overseas for trade, investment, and tourism promotion purposes, with more state governments now maintaining representative offices in Tokyo and Osaka (39) than in Washington, D.C. (38).[28] In addition, more than 40 governors have directed at least one international trade mission within the last two years, and many mayors of large cities are crisscrossing the globe in search of new economic opportunities. State and local governments are offering hundreds of millions of dollars in incentives to overseas investors willing to locate facilities in the United States, at the very time Congress has begun to have some reservations about FDI.[29] With so many international activities sponsored by so many units of government, it is increasingly difficult to ascertain who actually determines U.S. foreign economic policy.

Lack of Competitiveness. In absolute dollars, U.S. exports were at record highs in 1988 and again in 1989, and more firms are showing an interest in

exporting.[30] However, most American companies continue to ignore overseas markets, even though world trade has expanded dramatically over the past two decades with merchandise trade equaling $2.84 trillion in 1988.[31] The President's Commission on Industrial Competitiveness estimated a few years ago that 250 U.S. firms accounted for over 80 percent of all U.S. exports, with thousands of other firms not engaged in international commerce but manufacturing products which would be readily marketable abroad.[32] What is even more disconcerting is that the hold of small and medium-sized firms on America's home market is beginning to slip. Currently, at least 70 percent of American-made goods sold in the United States are subject to direct foreign import competition.

In 1987, the combined revenues of the 500 largest corporations outside the United States were 61 percent higher than America's top 500.[33] The Tokyo Stock Exchange is now the world's largest, having surpassed its New York counterpart in 1986. Moreover, the Germans and Japanese are devoting a higher percentage of their GNP than the Americans to civilian-sector research and development, a key factor in future innovation.[34] On plant floors and in offices, the average Japanese is logging in almost 300 hours more work per year than his American counterpart.[35] Growth in overall U.S. productivity has slowed during the past 15 years, and the rate of productivity improvement has now fallen behind that of several countries in Western Europe and East Asia. In the automobile industry, for example, U.S. plants take 40 percent longer to achieve the same amount of manufacturing as plants in Japan, and still produce cars with twice the number of defects as their Japanese competitors.[36] In its recent study of eight U.S. industrial groups, an MIT commission pinpointed six recurring patterns of weakness in America's productivity performance: (1) outdated strategies; (2) short time horizons; (3) technological weaknesses in development and production; (4) neglect of human resources; (5) failure to cooperate within companies and industrial groups and between management and labor; and (6) lack of coordination between government and industry.[37] Unless dramatic changes are made in the corporate boardroom and on the shop floor, U.S. productivity growth will continue to lag behind that of the major competitors across the Pacific and the Atlantic.

Shortcomings in the Schools. The first high school graduating class of the 21st century entered kindergarten in the fall of 1988. More Americans than ever before are graduating from high school, with a record 76.5 percent of those aged 25 and over having received high school diplomas and 20 percent having finished at least four years of college.

On the other hand, over 700,000 American teenagers are now dropping out of school each year, with 4 million young people between the ages of 16 and 24 not having completed high school. On an annual basis, another

700,000 are receiving degrees but leaving school as functional illiterates, unable to read their high school diplomas.[38] Almost 20 percent of the entire U.S. work force may be functionally illiterate, compared with 1 percent in Japan. Twenty-five million American adults cannot read the poison warning on a can of pesticide, and one-quarter of all adults, when given their paycheck and the stub showing deductions, cannot figure out if the paycheck is correct.[39] If this trend continues, America will have great difficulty training enough qualified workers to compete against the better-educated Japanese and Europeans.

The problem is especially acute within minority groups. Among urban blacks and Hispanics, the high school dropout rate is 40 to 50 percent, and in Texas nearly one-half of Hispanics statewide are not finishing their secondary education.[40] Nationwide, an absolute majority of black children are being raised in either a motherless or fatherless home, up from less than 25 percent in 1960. Without strong support and encouragement to attain a good education and secure meaningful employment, many young people, especially those from urban minority groups, will become societal problems instead of societal contributors. College enrollment among black males is down, and there are nearly half as many black young men in prison as in college.[41] Indeed, for the first time ever, America's total prison inmate population surpassed one million in 1989, at a cost per inmate ranging from $20,000 to $25,000.[42] The drug epidemic contributes substantially to the rising prison population, with almost half of the juveniles in prison convicted of drug offenses, and about two-thirds of adults arrested for felonies in major metropolitan areas having tested positive for illegal drugs.[43]

Within the next few years, over 80 percent of the new job entrants in the United States will be minorities, women, or recent immigrants. If America cannot adequately educate these traditionally disadvantaged groups and prepare them for skilled positions, a high price will be paid in terms of societal cohesion and international competitiveness. Already, two-thirds of the businesses contacted by the National Alliance of Business are reporting that they are not getting the kind of applicants they need, and the U.S. Chamber of Commerce estimates that American businesses are spending $40 billion a year on remedial training and developing basic reading, writing, and mathematical skills among new employees.[44]

At the university level, fewer American citizens received science and engineering Ph.D.s in 1985 than in 1970.[45] Currently, 50 percent of all postgraduate science students enrolled in U.S. institutions of higher learning are foreigners, with anywhere from 27 to 41 percent of doctoral degrees being awarded to foreign citizens in engineering, life sciences, architecture, computer sciences, and mathematics.[46] Only 8.5 percent of college freshmen decided to pursue an engineering curriculum in 1987, down from 12 percent in 1982. In all, 6 percent of U.S. baccalaureates are in engineering, compared

with 20 percent in Japan and 37 percent in Germany.[47] This waning interest now permits Japan, with half the U.S. population, to graduate more engineers each year than the United States.

The world is becoming more interdependent economically, but few Americans seem to care. A far higher percentage of U.S. high school students studied a foreign language in 1915 than in 1980. In 1915, 85 percent of America's colleges and universities required a prospective student to pass a competency test in a foreign language before being admitted; in 1980 only 8 percent of these institutions had a similar requirement.[48] Today, only 5 percent of America's college students possess any significant fluency in a foreign language. Far too many Americans believe that English is the *lingua franca* of the world, and thus there is no need to study a foreign language. Even in corporate boardrooms, many American executives share this perception, forgetting that the most important language in the world of business is the language spoken by their customers.

As for knowledge about the world in general, 78 percent of college students surveyed in the United States in 1950 could identify the principal country through which the Amazon River runs; in 1984 this number was down to 27 percent.[49] In a 1988 survey, 75 percent of Americans could not find the Persian Gulf on a map, 45 percent could not identify Central America, 45 percent did not associate apartheid with South Africa, and 50 percent did not know that Nicaragua was the battleground for the Sandinistas and Contras.[50] One in 7 adults cannot locate the United States on a world map, nearly 40 percent of Boston high school seniors who were surveyed could not identify the six New England states, and 25 percent of students surveyed in Dallas failed to name Mexico as the nation which borders the United States to the south.[51]

The consequences of insularity, complacency, and ignorance of what is going on in the world can be traumatic. In the early 1960s, no member of the U.S. Embassy staff in Saigon could speak the language of the native people. In Tokyo today, only 10 percent of the U.S. Embassy staff speak any Japanese at all, and only one or two are truly fluent.[52] In addition, only a small percentage of the U.S. business community in Japan can read and speak Japanese. Without the ability of their representatives to communicate, both the U.S. government and the corporate community face serious difficulties in gaining an accurate assessment of the political, economic, business, and social climates in other nations.

America is ill-equipped to enter into the new age of information and brainpower. It is estimated that 85 percent of the scientists who have ever lived are alive today.[53] New knowledge is being acquired at unprecedented rates and technological change is proceeding at a record pace. America's children have been tested against their counterparts around the world and generally rank in the bottom 25 percent.[54] Continued failures in the primary

and secondary schools will make it virtually impossible for America to compete effectively against nations which consider education as the lifeblood of future prosperity.

Education also impacts directly on the ability of the armed forces to carry out its mission. The number of men aged 18 to 24 has dropped by 12 percent since 1979, and will fall another 8 percent by 1996. With a smaller entry-level labor pool, corporations, colleges, and the military services will be competing vigorously for those men and women with at least a high school education. Already, the army and the navy are experiencing an increase in recruits who have not finished high school and registered below average scores on the Armed Forces Qualification Test.[55] It is very uncertain at this time as to whether the New GI Bill or a proposed National Service System will provide the four branches of the military with sufficient qualified recruits willing to enlist for three or more years.[56]

America's Economic Competitors

Even though the United States must grapple with ominous societal difficulties, it continues to be a formidable power. The United States has by far the world's largest national economy, with its 5 percent of the global population producing about 23 percent of global goods and services. Although the United States single-handedly accounted for 50 percent of total world production in the late 1940s, this was an anomaly largely attributable to the wartime devastation suffered by its major economic competitors. The current 23 percent share of global production has not changed significantly since the mid 1960s, and is comparable to the U.S. share prior to World War II.

The United States has produced over 80 percent of the jobs created in the Western world since 1980, and has experienced more than 7 years of uninterrupted economic expansion. The unemployment rate is near a 15-year low, and a record 63 percent of civilians are now working, up from 59 percent at the beginning of the decade. The United States continues to be a military superpower, and its worldwide strategic, diplomatic, and economic influence remains far greater than that of any other nation.[57] In addition, the American people maintain their number one ranking in the important area of purchasing power. The Japanese may now have the highest per capita wage among the major nations, but their overall prices are at least 30 percent higher, their housing 40 percent smaller, and their food 100 percent more expensive than that found in the United States.

Japan. The Japanese have made tremendous economic progress and now rank as the world's leading creditor nation. Japan will remain a major economic competitor of the United States for decades to come. The Japanese are a disciplined people who have been willing to make sacrifices in the short run

in order to achieve meaningful gains in the long run. They save a much higher percentage of their income than Americans and use these savings for productive investment purposes, giving credence to the maxim, "The Soviet Union arms, the United States consumes, and Japan invests." The Japanese system emphasizes education, and the country is willing to invest in brainpower, the key to success in the high technology world of the 21st century. Not only do the Japanese work hard, but they work smart. They have used their financial clout wisely and have now established an industrial and resource network which spans the globe. Moreover, they have recently supplanted the Americans as the largest foreign aid donor to the developing world.

Nonetheless, the Japanese will confront major economic challenges in the future. Japan's 123 million people are huddled together on rugged mountainous islands which are only the size of Montana. The nation is resource poor and would suffer major current account difficulties if commodity prices were to return to the level of the late 1970s. By the first part of the next century, the Japanese government will face huge costs associated with a rapidly aging population and a low ratio of workers to retirees. Immigration would help to ease this burden somewhat, but Japan's xenophobic tendencies will undoubtedly limit the number of foreign entrants. A growing emphasis on defense spending may divert additional resources from the civilian sector. Historical animosities and distrust will complicate Japanese efforts to establish an East Asian economic association equivalent to that of the European Community or the U.S.-Canada Free Trade Area.

The European Community. The European Community will undoubtedly flex its economic muscles in the decades ahead and become a prime competitor for the United States. Tremendous progress has been made in Western Europe since the implementation of the Treaty of Rome in 1958, and the new Single European Act agenda is both bold and innovative. Truly open borders for the movement of capital and labor would greatly mitigate some of the challenges linked to aging populations in several Western European countries and to economy-of-scale problems.

On the other hand, the European Community will still be composed of individual nation-states, with the most populated state being only one-fourth the size of the United States. Strong nationalist feelings in several member states, plus the difficulty of doing business in 11 different currencies, 9 major languages, and 12 distinct political systems, will slow the integration process.

The Soviet Union. The Soviet Union is the world's largest nation geographically, spanning eleven time zones. It is also the third most populated nation with 285 million people. The Soviet Union is without any doubt a military superpower which represents the prime threat to U.S. survival and

well-being. Soviet developments in the military and space sectors have been world class and should have certain beneficial spillover effects on the civilian sector.

Nonetheless, the Soviet economy as a whole is reminiscent of a developing country. The ruble is nonconvertible in global exchange markets and is grossly overvalued at the official Soviet exchange rate. Soviet nonmilitary exports are predominantly raw materials, and nonagricultural imports are mainly finished or semifinished products.[58] The Kremlin cannot feed its own people, and one-third of the food which is produced domestically rots before it reaches the shops. It has 14 million farm workers but remains a huge importer of food, whereas the United States has fewer than 3 million farmers and is a huge exporter of food.[59] In addition, the Soviet infant mortality rate is triple that of Great Britain or France.

The Soviet military budget may be three times larger than America's as a percentage of GNP, and overall government deficits have recently been at least triple the U.S. red ink as a proportion of GNP.[60] Both nations maintain federal systems, but decentralization pressures, mainly in the Baltic republics and in Georgia, are now much greater in the Soviet Union than in the United States. The U.S.S.R. is home to 104 distinct nationalities in its 15 republics, and by the year 2000, Russians will no longer form a majority.[61]

Overall Soviet living standards have either stagnated or decreased during the Gorbachev years, and a great deal of patience and tolerance for suffering will have to be shown by the Soviet people during the difficult transition from a command economy to a modified demand economy. If *perestroika* is to succeed, at least a decade will be needed before modest tangible results are achieved, a decade of rising unemployment and unfulfilled material aspirations. With a troubled economy which is only one-third to one-half the size of America's, it will be a long time before the Soviet Union emerges as a major economic rival of the United States.[62]

Policy-Making Dilemmas and Strategic Choices: A Defense Budget under Siege

The U.S. defense budget has already dropped 12 percent in real terms since 1986. Unless East-West tensions escalate dramatically, the defense sector can expect to lose further ground in real terms in the years ahead. Several factors will contribute to downward pressure on the U.S. defense budget.

Perceptions of the End of the Cold War. Even though President George Bush has warned of growing complacency throughout the West, U.S. public perceptions that the Cold War is over or about to end will add to pressure to cut back on the 339,000 troops and 281,000 dependents currently stationed in Europe as part of America's Nato commitment.[63] With voices such as Jeane

Kirkpatrick, William Perry, Andrew Goodpaster, and John Lehman now supporting significant U.S. troop reductions in Europe and elsewhere, there is a growing consensus to pare the U.S. defense budget and transfer a significant number of active duty personnel to the reserves.[64]

Burden-sharing Concerns and Nato. Western European economic prosperity, continuing trade tensions between the United States and the European Community, significant European antagonisms towards the U.S. military presence, and a growing perception among the American public of an unfair distribution of the burden for defending Western Europe will also add to domestic pressure for a downgrading of America's Nato troop commitment.[65] The United States is currently devoting approximately $140 to $150 billion per year to the defense of Western Europe, whereas the European allies in Nato spend about $110 billion. Overall U.S. defense spending as a percentage of GNP is about double that of the European allies. In 1988, the United States spent $1,164 per capita on the military, versus $454 for Western Europe's strongest economy, West Germany.

On the other hand, unilateral cutbacks in Europe on the part of the United States could have severe strategic consequences. The first Secretary General of Nato, Lord Ismay, once suggested that Europeans viewed the initial purpose of the North Atlantic alliance as keeping America in, the Soviet Union out, and West Germany down. A precipitous U.S. de-escalation of its Nato commitment could lead to a far different "common European house," with the United States out, the Soviet Union in, and West Germany ascendant.[66]

Burden-sharing and Trade Concerns with Japan. Americans resent the $50 billion annual trade surpluses which Japan has enjoyed with the United States over the past several years. A sizable majority of Americans believe that Japan engages in unfair trading practices, and this perception has been echoed in Washington with the imposition of a Super 301 investigation against Japan.[67]

Many in Washington also perceive that Japan has received a free ride in the defense of the West, spending only one-sixth of what the United States allocates for the military as a proportion of GNP. Moreover, whereas the United States spent $1,164 per capita on the military in 1988, Japan expended only $163. Concern over the transfer of sensitive defense-related technology to Japan, especially in the aerospace sector, has further complicated relations between the two nations.

Once again, a precipitous unilateral cutback of the U.S. military commitment to Japan and East Asia could have long-range strategic repercussions. The Japanese do provide almost $50,000 in subsidies for each U.S. armed forces representative in Japan. Furthermore, Japan's neighbors have some qualms about a major buildup in Japan's military capability. With its huge current account surplus and its constitutional restrictions on defense

spending, Japan could perhaps do more to contribute to peace and stability by channelling much more assistance to the developing countries through multilateral organizations such as the World Bank and the International Monetary Fund.

The Growing Importance of Nonmilitary Items on the U.S. Foreign Policy Agenda. If strategic tensions are eased significantly, Washington will begin to pay much more attention to international issues which threaten broadly defined U.S. security interests. These issues would include drug trafficking, ozone deterioration, the greenhouse effect, waste disposal, energy and resource security, Third World debt, illegal immigration, currency-exchange stability, intellectual property protection, and trade and investment liberalization. All of these issues could divert both attention and funding away from the military sector.

Domestic Political and Economic Priorities. Perhaps most importantly, domestic political and economic realities will place downward pressure on the defense budget.

Approximately 85 percent of the entire federal budget is encompassed in three sectors: entitlement programs, defense, and debt servicing. Debt servicing will continue to mushroom because even if Gramm-Rudman guidelines are faithfully implemented, Washington's debt will increase well into the 1990s.

America is an aging society and the elderly now receive about 28 percent of the federal budget, almost double the share of 25 years ago.[68] Moreover, older people are much more likely to vote than younger ones, a fact that has not been overlooked by Congress or the White House. Indeed, according to a Census Bureau study, 68 percent of 45 to 64 year olds and 69 percent of those 65 and older voted in 1988, compared with 54 percent of those between 25 and 44 and only 36 percent of those between 18 and 24.[69] Government spending on Medicare and Social Security cost-of-living adjustments (COLAs) must be curbed somewhat if the budget is ever to be balanced, but politicians are not willing to jeopardize their careers in order to trim entitlement benefits. When faced with a choice between entitlement and defense cuts in an era of reduced global tensions, Congress will opt for the latter.

In many respects, the Canadian budget introduced in April 1989 provides some useful lessons for the upcoming budgetary battles in Washington. Canada's federal debt is significantly larger than that of the United States when measured on a per capita basis or as a percentage of GNP. In an effort to reduce the federal government's deficit over the next few years, the Mulroney government significantly increased taxes. In addition, expenditures were trimmed, with defense and foreign aid absorbing over 60 percent of

the total cuts. Military spending will be sliced by $2.7 billion over the next five years, and the cancellation of new orders for the CF-18 aircraft and the postponement of modernization plans for frontline tanks call into serious question Canada's continued commitment to Nato.[70]

Canada's spending on defense has not been prodigious, with defense allocations as a percentage of GNP little more than that of Luxembourg. Nonetheless, Ottawa has racked up huge government deficits, in large part to provide an extensive cradle-to-grave social welfare system. Some of these social welfare benefits should be pared back for the sake of budgetary soundness, but the Canadian government was simply not willing to face the ire of the Canadian voters over entitlement programs. Furthermore, the Gorbachev initiatives have helped to create a climate within Canada which is conducive to defense cutbacks. In effect, both in Canada and the United States, the constituencies for the continuation of entitlement spending are much stronger than the constituencies supporting defense spending.

Old-fashioned pork barrel politics will contribute to the Pentagon's woes, especially when America's system of extended deterrence and forward defense is considered within the context of a post-Cold War relaxation of tensions between the East and the West. For example, in fiscal year 1990, the Pentagon wants to spend more on military construction projects in Germany than in any American state except California. This priority may make eminent sense militarily as the Pentagon assesses the demands of its 120 bases spread around the world and the needs of one million U.S. military and civilian personnel and dependents who are based on foreign soil. Yet it flies in the face of domestic pork barrel politics. Indeed, in spite of the innovative formula used recently for determining base closings, base closures and openings have historically complicated life for Pentagon planners, who have attempted to formulate a rational budgetary strategy in the face of Congress' pork barrel shenanigans.

A budget sequestration under Gramm-Rudman would affect defense much more than any other sector. Indeed, if automatic cuts are put into effect, about half of the reductions will be in the defense sector. Flexibility in finessing budget cuts is very limited because only about 10 percent of the defense budget is discretionary, while the rest goes for pay, operations and maintenance, and weapon procurement obligations made in prior years.

In the strategic realm, the United States must adapt to the vulnerability which accompanies international economic and resource interdependence. Eighteen countries or groups of nations now supply at least 20 percent or more of a large number of minerals on the strategic minerals list.[71] In 1987, the Defense Science Board identified 25 critical technologies involved in the design and manufacture of microchips. Japan led in 12 categories, the United States in only 3, and the two nations were about even in the remaining 10.[72] Many Japanese and other foreign-made chips are used in the F-16 fighter plane

and in a plethora of other advanced weapon systems. Furthermore, three Japanese companies are beginning to rival the U.S.-based Cray Research for leadership in super-computer systems, systems which are vital for U.S. electronic intelligence, antisubmarine warfare, and for monitoring the activities of the U.S.S.R.[73] Ironically, in an age of complex interdependence and burgeoning trade linkages, the Soviet Union itself is now supplying 8 percent of the U.S. market for enriched uranium, vital as a fuel both for civilian nuclear power plants and for nuclear-powered ships and submarines.[74] Washington will face numerous dilemmas in attempting to balance the needs of the defense sector while at the same time limiting reliance on potentially unreliable foreign suppliers.

Yet, even though it is under siege, the Pentagon's budget is still very impressive, being larger than the GNPs of all but seven nations in the noncommunist world. Moreover, the 50 percent buildup in real terms during President Reagan's first term has arguably provided some cushion for cutbacks. Over the past 15 years, U.S. defense expenditures have varied between 5.3 and 6.7 percent of GNP and will soon hover at or below the lower figure unless international tensions escalate. However, if Gorbachev is deposed and a new Kremlin leadership reverts back to Brezhnev-style policies, the huge U.S. economy will be able to sustain defense spending well above 6.7 percent, but at a great toll on the overall domestic budget and tax structure.

Tackling the Budget Deficit

The earlier comparative look at the economic prospects for Japan, Western Europe, and the U.S.S.R. suggests that the United States is perfectly capable of maintaining a strong leadership role in the international economy of the 21st century. Nonetheless, Americans must recognize that their nation has been slipping, and wishful thinking, popularly known today as the "be happy, don't worry" syndrome, will only aggravate the crisis facing the United States.

The first important step towards the revitalization of American competitiveness will be for Congress to reduce the government deficit by about $40 billion per year without playing games with the Social Security and other trust funds.

There are many areas where cutbacks can be made in the federal budget. The President's Private Sector Survey on Cost Control, otherwise known as the Grace Commission, has done an excellent job in pinpointing areas where expenditures can be pared. In its 36-volume study, the Commission provided sample budgetary savings of up to $140 billion annually over a three-year period.

If Congress lacks the political courage to lower the budget on an item-by-item basis, it should create a new commission with powers similar to those of the base-closing panel. For many years, the Pentagon asked permission to close bases which no longer served a useful purpose. But because of the pork barrel, Congress refused to close any installations at all. Finally, in a fit of desperation, the members of Congress devised an ingenious structure which would impose limits on their own excessive indulgences. A nonpartisan commission devoid of congressional members was established to recommend which bases should be scuttled. Once the commission's list was submitted, no changes whatsoever were permitted, and only the dissent of the Secretary of Defense or a two-thirds vote on Capitol Hill could have blocked the entire slate of closings from being carried out. The targeted bases, although relatively few in number, are now in the process of being closed.

The same procedure could be used for trimming the budget deficit. A blue-ribbon panel should be established to determine which of the Grace Commission's deficit-reduction recommendations to implement. Congress should then be forced to support these recommendations unless a two-thirds majority could be mustered in opposition. In tandem with the establishment of the commission, Congress should place an additional check on its pork barrel habits by authorizing the president to use the line-item veto power currently entrusted to the governors of more than 40 states.

Cutbacks in some government sectors will only partially compensate for increases needed for salvaging the savings and loan industry, cleaning up and modernizing nuclear weapon production plants, and refurbishing America's aging infrastructure of highways, bridges, harbors, airports, and mass transit and waste water systems. In addition, the quest to improve America's educational system is just as momentous today as the challenge which faced the United States after the Soviets launched Sputnik in 1957. Education must be given top priority at all levels of government, with much more attention placed on expanded Head Start programs, magnet schools, and providing parents with more freedom of choice in selecting which public schools their children will attend. Seattle, San Jose, and Boston are now implementing programs which permit such choice at the municipal level, and Minnesota allows choice on a statewide basis. The quality of education must also be improved through better paid and better trained teachers, guided by rigorous state and national standards of proficiency, and conducting year-round classes with longer school days. Additional courses in science, mathematics, geography, and foreign languages should bolster both the primary and secondary-level curricula. Above all, parents must take a cue from their Asian counterparts and vigorously promote learning in the home. Businesses should become much more actively involved in assisting local schools by loaning out staff, furnishing equipment, and providing work-study jobs for students. This type of help is invaluable and will pay dividends in terms of a better trained

work force, a work force which will largely determine America's economic performance in the years to come.

Winston Churchill once made the following observation: "Americans can always be relied on to do the right thing after they have exhausted all the other possibilities." Hopefully, the option list of flawed policies has been nearly exhausted, and political leaders and the public at large are now willing to make tough and painful decisions in order to improve America's long-term economic standing in the world. If this prodigious task is accomplished, America will be able to maintain a powerful, albeit more selective, role in an increasingly multipolar world.

Notes

1. Although exchange rates often skew calculations, it is estimated that the world's gross product was $14.7 trillion in 1988, with Europe's share (excluding the U.S.S.R.) being about 29 percent, America's 23 percent, and Japan's and the Pacific Basin's (excluding China) 13 percent. See the *New York Times*, 21 May 1989, p. 30.

2. Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), p. 529.

3. *Ibid.*, p. 533.

4. *Economist*, 17 October 1987, p. 13.

5. David P. Calleo, *Beyond American Hegemony* (New York: Basic Books, 1987), p. 220.

6. Clyde V. Prestowitz, Jr., *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988), p. 332.

7. ABC poll, May 1989 and *New York Times*-CBS poll, May 1989. See the *Washington Post*, 23 May 1989, p. A13

8. The recent Times Mirror/Gallup poll indicated that 58 percent of Americans described Japan as the world's leading economic power versus 29 percent who placed the United States first. Rosecrance's comments are found in *Newsweek*, 22 February 1988, p. 44.

9. Henry R. Luce, "The American Century," *Life*, 17 February 1941, pp. 61-65.

10. The off-budget debts are composed of direct loans, guarantees on loans, and loans made by government-sponsored enterprises. The Bush administration handled the savings and loan industry crisis by creating an off-budget Resolution Funding Corporation which will raise $50 billion in 30-year bonds over three years. This liability will not be counted as part of the official debt of the U.S. government. See the *Economist*, 27 May 1989, p. 77.

11. A rather gloomy assessment of the options available to the executive branch in coping with the government's mounting debt is found in John E. Silvia, "America in Debt: A President's Dilemma," *Challenge*, January-February 1989, pp. 27-34. To illustrate the many expenses which must be assumed by the federal government in the future, the cleanup of the Hanford nuclear reservation in the state of Washington is expected to cost $2.8 billion over the next five years, and a total of $50 billion over 30 years. See the *Seattle Post-Intelligencer*, 14 May 1989, p. D1.

12. David D. Hale refers to this rescue as part of an evolving "Pax Consortia." See his article, "Picking Up Reagan's Tab," *Foreign Policy*, Spring 1989, p. 150.

13. There is no doubt that U.S. direct investments abroad, most of which have been made over the past 40 years, are undervalued in official statistics. In making calculations of U.S. direct investment overseas, Washington uses book value instead of market value. Moreover, Washington continues to list the book value of U.S. gold stock at $42 per ounce. Nonetheless, the United States has become very dependent on overseas direct and portfolio investment, and this has placed much more pressure on the U.S. current-account balance. See Paul Craig Roberts, "Commentary," in Edward K. Hamilton, ed., *America's Global Interests* (New York: Norton, 1989), pp. 113-121.

14. This deficit figure includes transportation and insurance charges.

15. *Business Week*, 6 March 1989, p. 19. U.S. trade competitiveness is discussed in detail in C. Michael Aho and Marc Levinson, *After Reagan: Confronting the Changed World Economy* (New York: Council on Foreign Relations, 1988), and Raymond Vernon and Debora Spar, *Beyond Globalism: Remaking American Foreign Economic Policy* (New York: Free Press, 1989).

16. The controversial nature of FDI is highlighted in Martin Tolchin and Susan Tolchin, *Buying Into America* (New York: Times Books, 1988), and Felix Rohatyn, "America's Economic Dependence," in *America and the World 1988-89* (New York: Council on Foreign Relations, 1989), pp. 53-65.

17. The Cuomo Commission on Trade and Competitiveness, *Report* (New York: Simon & Schuster, 1988), p. 5.

18. For a discussion of consumption, productivity, and savings issues, see Barry P. Bosworth et al., *Critical Choices* (Washington, D.C.: Brookings Institution, 1989).

19. In the Great Depression, more than 5,000 banks collapsed and unemployment topped 22 percent in 1933, with an additional 21 percent working part time. The Dow Jones Industrial Average peaked at around 380 just prior to the October 1929 crash, and then plunged to a low of 38 in the summer of 1932. A recession in the 1990s would not be as bad, but it could precipitate major banking and business failures and a return to double-digit unemployment.

20. These fignres were as of 30 June 1988.

21. Jeffrey Sachs, "Making the Brady Plan Work," *Foreign Affairs*, Summer 1989, pp. 89-90.

22. Latin American countries alone have an external debt of about $400 billion, with $65 to $80 billion of this owed to the largest dozen or so U.S. commercial banks.

23. A report released in December 1986 by the Joint Economic Committee of the U.S. Congress estimated that almost 90 percent of the new jobs fell within this low-wage category. In Barry Bluestone and Bennett Harrison, "The Growth of Low-Wage Employment: 1963-86," *American Economic Review*, May 1988, pp. 127-128, the authors attribute the rising share of low-wage jobs to (1) slow productivity growth, (2) a shift of employment out of manufacturing, (3) a decline in unionization, (4) the erosion of the real value of the minimum wage, (5) two-tier wage structuring in certain industries, and (6) outsourcing.

24. *USA Today*, 25 June 1988, p. 20.

25. For a broad discussion of this issue, see Robert E. Litan et al., *American Living Standards* (Washington, D.C.: Brookings Institution, 1988).

26. Sar A. Levitan and Elizabeth A. Conway, "Part-timers: Living on Half-rations," *Challenge*, May-June 1988, pp. 9-10.

27. In 1987, 8 of the 10 most robust economies were found in coastal states, and the other two, Arizona and Nevada, depended on California for much of their growth. See *Inc.*, October 1987, pp. 76-77.

28. *Governors' Weekly Bulletin*, 14 April 1989, p. 1. Total grants-in-aid to state and local governments added up to $115 billion in 1988, down 40 percent in real terms from 1980.

29. See Earl H. Fry, "Foreign Direct Investment in the United States: The Differing Perspectives of Washington, D.C. and the State Capitals," *BYU Law Review*, no. 2, 1989, pp. 373-391.

30. The U.S. Department of Commerce estimates that there were 100,000 firms engaged in export activity in 1987, compared with 40,000 in 1984. See the *Wall Street Journal*, 24 February 1989, p. R30.

31. According to the General Agreement on Tariffs and Trade (GATT), world trade grew at its fastest rate in four years in 1988, up 8.5 percent.

32. The President's Commission on Industrial Competitiveness, *Global Competition: The New Reality*, v. 2 (Washington: U.S. Govt. Print. Off., 1985), p. 205.

33. *Forbes*, 25 July 1988, p. 208.

34. The Japanese now spend about 50 percent more and the Germans 32 percent more than Americans as a percentage of GNP. See the Cuomo Commission, p. 73.

35. *Newsweek*, 15 May 1989, p. 56.

36. Michael L. Dertouzos et al., *Made in America: Regaining the Productive Edge* (Cambridge, Mass.: MIT Press, 1989), p. 20.

37. *Ibid.*, p. 44.

38. *Fortune*, 7 November 1988, p. 42.

39. Jonathan Kozol, *Illiterate America* (Garden City, N.Y.: Anchor Press, 1985), pp. 4, 5, 9, 16.

40. *Los Angeles Times*, 15 January 1989, IV, p. 3, and *Fortune*, 13 March 1989, p. 112.

41. *New York Times*, 5 February 1989, I, pp. 1, 30.

42. *Wall Street Journal*, 27 January 1989, p. B4.

43. *Economist*, 21 January 1989, pp. 25-27.

44. *Los Angeles Times*, 15 January 1989, IV, p. 3.

45. Cuomo Commission, p. 73.

46. Peter Morici, *Reassessing American Competitiveness* (Washington, D.C.: National Planning Association, 1988), p. 51 and *Newsweek*, 19 October 1987, p. 74.

47. Dertouzos, p. 21.

48. Paul Simon, "The U.S. Crisis in Foreign Language," *Annals of the American Academy of Political and Social Science*, May 1980, p. 32.

49. U.S. Congress, Senate, Committee on Labor and Human Resources, *Hearings on Geography Education*, 29 October 1987, pp. 34, 47.

50. This survey was commissioned by the National Geographic Society and completed by the Gallup organization.

51. See the Stephen Green column, Copley News Service, 28 February 1989, and Richard Wood, "For Americans, the World Is Terra Incognita," *Christian Science Monitor*, 28 February 1989, p. 19.

52. Prestowitz, p. 263.

53. Walter B. Wriston, "Technology and Sovereignty," *Foreign Affairs*, Winter 1988-89, p. 63.

54. See, for example, the Princeton-based Educational Testing Service results of 1986 which tested the math and science skills of 13-year-olds in the United States, South Korea, Ireland, Spain, the United Kingdom, and four Canadian provinces. Other relevant cross-national tests would be the International Mathematics Study examination and the geography survey sponsored by the National Geographic Society.

55. David C. Morrison, "Fall In, Citizen," *National Journal*, 22 April 1989, pp. 989-993. During the first half of fiscal year 1989, 11 percent of Army recruits lacked a high school diploma and 11 percent were Category IVs, meaning that they had below average scores on the qualification test. The navy figures were 12 percent and 10.5 percent respectively.

56. The most prominent National Service System proposal is contained in the Nunn-McCurdy bill (S-3, HR-660) currently before the Congress. Several other service schemes have also been introduced in Congress. Longer enlistment periods are desirable for cost-effectiveness, especially for filling technical positions.

57. See Samuel P. Huntington, "The U.S.—Decline or Renewal?" *Foreign Affairs*, Winter 1988-89, pp. 76-96.

58. Approximately 80 to 90 percent of all Soviet foreign currency earnings are due to exports of oil, gas, gold, and arms.

59. *Economist*, 11 March 1989, pp. 47-48.

60. In his 30 May 1989 speech to the newly elected Congress of People's Deputies, Gorbachev stated that the U.S.S.R. spends $118 billion a year on defense, nearly four times higher than previous official claims.

61. Gregory D. Foster et al., "Global Demographic Trends to the Year 2010: Implications for U.S. Security," *Washington Quarterly*, Spring 1989, p. 11.

62. The CIA has estimated Soviet GNP to be 50 percent of U.S. GNP, whereas a 1987 Gosplan report pegged it at 33 percent. See the *New York Times*, 23 November 1988, p. A15.

63. President Bush's observations were made in his Boston University commencement speech. See the *Washington Post*, 22 May 1989, p. A1.

64. See, for example, the Jeane Kirkpatrick editorial in the *Deseret News*, 21 May 1989, p. 20A; William J. Perry, "Defense Investment Strategy," *Foreign Affairs*, Spring 1989, pp. 72-92; Andrew J. Goodpaster, *Gorbachev and the Future of East-West Security: A Response for the Mid-Term* (Washington, D.C.: Atlantic Council, 1989); and John Lehman, "The Saving of the U.S. Military: Reservists," *International Herald Tribune*, 27 March 1989, p. 4. The public is also influenced by traditional critics of defense budgets such as Carl Sagan, who estimates that the United States has expended $10 trillion on the Cold War, with the Soviet Union expending an equal amount. See his article, "Five Years on Planet Earth—And Beyond," *Parade*, 30 April 1989, pp. 18-20.

65. The retiring U.S. Ambassador to Great Britain, Charles Price, warned of the danger to the Western Alliance posed by anti-Americanism that feeds on the images of "America the violent, America the crass, America the inept." He asked Europeans to remember as well "America the steadfast ally, America the generous and America of the many Nobel laureates." In a Mori opinion poll conducted in 1986, 1 in 3 Britons stated that the United States was as much a threat to world peace as the Soviet Union. See the *Sunday Times*, 26 March 1989, p. B2.

66. Such a scenario is suggested by George F. Will in his syndicated column released for distribution on 4 May 1989. The "common European house" reference has been made several times by Gorbachev in an effort to illustrate the commonality of interests between Western and Eastern Europe.

67. In the *New York Times*-CBS poll released on 28 May 1989, over 60 percent of adults perceived that Japan engaged in widespread unfair trading practices. Super 301 is a provision contained in the 1988 Omnibus Trade Bill which requires the Office of the U.S. Trade Representative (USTR) to investigate the trading practices of other nations. In May 1989, Japan, India, and Brazil were cited by USTR for Super 301 violations. Up to 18 months in negotiations will take place in an effort to reach a satisfactory compromise with the offending nations. If negotiations prove to be unsuccessful, Washington can take unilateral action and penalize the offenders, even though such action might violate U.S. commitments within the General Agreement on Tariffs and Trade (GATT).

68. Foster, p. 9.

69. The U.S. Census Bureau asked people if they had voted, and invariably, the results are higher than the actual turnout. Nonetheless, the differences in turnout based on age are striking.

70. See, for example, *Maclean's*, 22 May 1989, p. 10, where a prediction is made that Canada's cutback in military spending "has made a retreat from the country's NATO commitments all but inevitable."

71. See Evan W. Anderson, "Ensuring America's Mineral Supply," *Enterprise*, November-December 1985, pp. 13-15.

72. *Newsweek*, 13 March 1989, p. 47.

73. *Wall Street Journal*, 24 May 1989, p. A1.

74. U.S. Energy Department report released on 25 May 1989.

"Great political results often flow from correct military action; a fact which no military commander is at liberty to ignore. He may very well not know of those results; it is enough to know that they may happen, and nothing can excuse his losing a point which by exertion he might have scored."

Naval Strategy
A. T. Mahan (1911)
Little, Brown (1918), p. 267