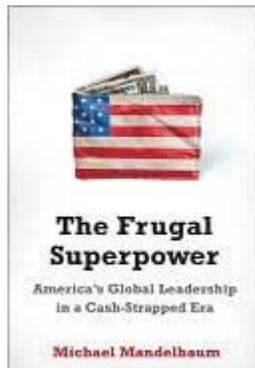


## The Frugal Superpower: America's Global Leadership in a Cash-Strapped Era

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### Introduction

**DAVID SPEEDIE:** Good afternoon, everyone, and welcome to the Carnegie Council.

We are delighted to have today as a guest Michael Mandelbaum. Michael is the Christian A. Herter Professor of American Foreign Policy and director of the American Foreign Policy program at the Johns Hopkins University School of Advanced International Studies in Washington. He is also a former faculty member at Harvard University, Columbia University, and the U.S. Naval Academy.

In addition to being an old friend, I can honestly say that, while the term "Renaissance man" is way overused, it is hardly so in the case of Michael. His book today is one of a series of forceful contributions to the writing on American foreign policy. He has also written [The Meaning of Sports: Why Americans Watch Baseball, Football and Basketball and What They See When They Do](#), which I would argue can be looked at as a bookend to this piece, [The Frugal Superpower](#).

We will be talking about the book in the following way. First of all, Michael and I will have a conversation for 15-20 minutes, just exploring the contours of the book and the main themes, and then we will throw it open to the audience for the next half-hour to 35 minutes.

Michael, again welcome to the Council.

### Discussion

**MICHAEL MANDELBAUM:** A pleasure to be with you. Thank you for inviting me.

**DAVID SPEEDIE:** To get right to the heart of the matter, Michael, it seems to me the book has three themes.

- First, there is a "Perfect Storm," as it were, of the fallout from the financial crisis of 2008, the soaring federal deficit, and the equally rapidly rising so-called entitlement program costs of Social Security and Medicare. These three factors will inevitably lead to a more constrained U.S. international engagement.
- Second, this does not mean that there will be a new era of isolationism for the United States. As you say at one point, "No country stands ready to replace the USA, which will remain economically and militarily preeminent for the foreseeable future, but rather that we will pick and choose our obligations more selectively, more judiciously, taking into account political threats and competitors along the way." You mention particularly China, Russia, and Iran.
- Third, that it is incumbent upon the United States to forge a new policy focused on a reduction in our dependence on foreign oil. The implications and importance to this policy is no less than the policy of containment of the Soviet Union in the latter part of the last century.

In reading the book and admiring what you say, it is a long way from [The Case for Goliath](#) a mere four years ago. Tell me if my analysis is correct.

**MICHAEL MANDELBAUM:** I couldn't have said it better myself. I hope I said it at least as well. That is a very concise summary of the major points.

I would emphasize, on the first point. While the deficits that were run up between 2001 and 2007 are pretty formidable, the amount of money that we are throwing at the financial meltdown and the recession that it dramatically worsened, are formidable.

The real challenge, the real tidal wave of economic obligations, comes from the entitlement programs, because of the retirement of the Baby Boom generation—those Americans born between 1946 and 1964. There are almost 80 million of us. As we begin to collect benefits, the bill that the government—which is to say all of us—will have to pay will zoom upward. This is quite unprecedented.

We have gotten into the habit of spending more than we collect in taxes and bridging the gap by borrowing, increasingly from abroad and from foreign governments. The increase in obligations is going to be so dramatic in the next couple of decades that it is simply not going to be possible to borrow all the money that we will need.

We will not be able to avoid, no matter what our politicians promise us, both raising taxes and cutting benefits. That means raising taxes for everybody, not just the rich; and cutting benefits where it really matters, which is in Social Security and Medicare.

That will create a new and different, and not entirely pleasant, political climate in the country, in which many of the familiar landmarks and signposts of American public policy will certainly be challenged and may be toppled.

Foreign policy will certainly not be accepted, in the kind of economic and political climate that I foresee, principally, although not exclusively, because of the costs of Boomer retirement.

People are going to be a lot less willing to support the kinds of foreign policies that the United States has become accustomed to conducting really for seven decades, since the beginning of World War I. I see a major change, not just in the weather, but in the climate of American foreign policy looming just over the horizon.

**DAVID SPEEDIE:** The third part of the big troika in terms of federal spending is defense. I think I'm right in saying that the so-called entitlement programs plus defense constitute something like 75 percent of the federal budget.

You say also: "The limits of the possible will be narrower than they have been for many decades."

Let me just press you a little bit on that point, in the sense that recently we had [Andrew Bacevich](#) here. Andrew has written a book called [Washington Rules: America's Path to Perpetual War](#).

It has seemed that along the way, even though common sense as well as prudence and fiscal responsibility would dictate not to get into foreign wars and other aspects of aggressive foreign policy, this kind of common sense hasn't always prevailed. We have continued to borrow.

Do you see this as being such a definingly critical time, with the entitlement payments in particular, that simply a new paradigm is being written as to how we approach this?

**MICHAEL MANDELBAUM:** Yes, I do.

The necessary condition for the kind of foreign policy of which I take it Andy Bacevich disapproves—although I haven't read the book—has been an economic basis for foreign policy that permitted these kinds of activities without an economically-induced political strain in the United States.

The Iraq war became unpopular, Vietnam was unpopular, and Korea became unpopular, principally because of casualties, not because they were expensive. The Iraq war is actually less expensive than those two wars were as a proportion of American GDP.

It is the Boomers' entitlements that change the picture.

Some people argue that the Washington system and the American foreign policy system is such that it inevitably produces these interventions, and that Uncle Sam is rapaciously interventionist. I don't agree with that.

What I foresee will give us a real test of that hypothesis, because I don't think we are going to engage in these kinds of interventions. The public won't permit them because they are too expensive.

Whether you think Iraq and Afghanistan and the humanitarian interventions of the 1990s in Bosnia, Somalia, and Haiti were good or bad, they are just not going to happen any more in the future for economic reasons. That's a prediction, and that follows quite clearly from my analysis.

**DAVID SPEEDIE:** Let me ask a corollary question that actually comes at it from a different point of view. We are, after all, the Carnegie Council for Ethics in International Affairs. We are concerned about ethics in the conduct of foreign policy.

Will the necessary constraints, which you very convincingly argue, prevent us from carrying out commitments to which we might feel otherwise ethically bound?

**MICHAEL MANDELBAUM:** I suspect the answer is yes. I don't think we will see more Bosnias, Somalias, Haitis, or Kosovos.

There are certainly people who believe that we should be intervening in Sudan. I don't think that is going to happen. We have a president and an administration who are probably more favorably disposed to this kind of intervention than any we are likely to have in the future, and they are not doing it. There are a number of reasons that they are not intervening in Sudan. We do have two wars going on at the moment.

Nonetheless, the economic constraint looms in the background and will become ever stronger.

You deal with a whole range of international issues where ethics enter in, but when it comes to military intervention for ethical purposes, I think that is going to be off the table, as it has not been for the last two decades.

**DAVID SPEEDIE:** A mischievous question, if I may. Two policy decisions that you take to task in the book are the Iraq war, which you already mentioned, and NATO expansion, in which you and I and a few others were in tandem in the 1990s. It was one of the great causes in the 1990s.

**MICHAEL MANDELBAUM:** And we were right.

**DAVID SPEEDIE:** We were right, heaven knows.

You say in the book that the constraints will perhaps have the salubrious effect of preventing some wrongheaded decisions, Iraq being the earliest one. NATO expansion didn't cost a lot of money, but it was still a bad decision.

Do you think that every bad decision will be obviated by financial constraints?

**MICHAEL MANDELBAUM:** That's a good point.

While NATO expansion and the Iraq war—and incidentally, I don't mean the decision to go into Iraq, per se, which was defensible, although in the book, *The Case for Goliath*, I give my reasons that it could be justified, which are not the same as those of the administration.

What I'm referring to in *The Frugal Superpower* is the way the intervention was conducted and, in particular, the complete absence of contingency plans for the aftermath of the deposing of [Saddam](#). The American troops arrived with no plan as to what to do after the Baathist regime was vanquished.

What they had in common was a kind of overconfidence, because we were riding high, we were the sole superpower, and we could do and afford anything. We will not in the future feel that sense of overconfidence, which can breed excess. I'm not sure whether hubris is exactly the right word here, but this post-Cold War overconfidence is what those two mistakes had in common.

NATO expansion didn't cost a lot of money. It's not the economic constraints, per se, that will make a difference. It is the sense that the possibilities are not infinite, that we have to make tradeoffs, that we have to husband our resources, and that we have to decide what is necessary and what is merely desirable.

For a number of years, the United States was the billionaire among nations. We decided what we would do, not on the basis of what it cost, but on the basis of whether we thought it was a good thing to do.

Now, we are sinking back into the middle class, and like middle-class people we can afford to do some important things, and we should do them.

We are going to have to watch our budget in a way that we haven't done certainly in the two decades since the Cold War ended and really since the beginning of World War II. We are going back in some ways to the foreign policy of December 6, 1941. I make this case in *The Frugal Superpower*.

**DAVID SPEEDIE:** Interesting.

We've discussed a little bit about the implications of the three major factors that will constrain foreign policy.

On your third point, I can't resist something on gas dependency. [The Financial Times](#) has a wonderful quote: "Mr. Mandelbaum has been preaching the gospel of petrol taxes for a long time, and does so persuasively."

**MICHAEL MANDELBAUM:** I'm glad somebody has been paying attention. You wouldn't know that for all the effect my preaching has had.

**DAVID SPEEDIE:** This is linked in with what you see in terms of future threats or challenges, the single most serious one being the greater Middle East. You talk about how our policy challenges there are linked with our dependency on foreign oil, and you say that "keeping gas cheap is basically a failure of political will."

You then go on to say that "the reduced demand from the U.S. and others will reduce the cost of oil, and therefore to some extent constrain some of the nefarious influences in the Middle East." It will reduce capacity for mischief from what used to be called "[states of concern](#)."

**MICHAEL MANDELBAUM:** Yes.

**DAVID SPEEDIE:** This would imply higher taxes on gasoline in the United States, a move to smaller cars, changes to the habits of others, including China, in terms of where the price of gas will go. There are all sorts of variables here that at least imply a transitional period to common sense.

The country doesn't seem to be in a great mood. In fact, the Connecticut political ads at the moment feature that one candidate will raise gasoline prices by 66 cents a gallon.

The mood of the American public doesn't seem to be heading in your commonsense direction.

**MICHAEL MANDELBAUM:** No, it isn't.

I have followed this issue for some time. As far as I know, no elected politician in the United States has ever agreed with me that the United States ought to aspire to gasoline prices similar to those that the Europeans and the Japanese pay. They pay two-and-a-half to three times as much per gallon as we do. I have two points on this.

First, obviously the transition away from gasoline is a long one. It's a multi-decade process. But, as the saying goes, a journey of 1,000 miles begins with a single step.

If the United States were to raise the price of gasoline dramatically, this would have two effects.

- One is conservation. We would use less. Public transport would be more widely used. Second, and most importantly, is that we would get substitution.
- We would begin to switch to other sources of power, other fuels, because they would be commercially viable. Ethanol would be viable. The public would demand energy-efficient automobiles. Detroit and Nagoya and other places would start to make them. There would be a lot of investment in battery technology, which means that electrically powered cars would become more feasible.

The process of innovation will be most productive in the United States. You might say, "Well, if all this is going to

happen, why hasn't it happened in Europe and Japan?"

The answer is that, first, their markets are not as big; and second, they don't have the culture of innovation that we do. If anybody is going to build an electric car, it is going to be the United States.

Now, the Chinese don't agree, and they are putting a lot of money into electric cars. I hope, ambivalently, that they are successful. But it really requires the kind of economic ecosystem that the United States has.

You are quite right, that if the public were to be wise enough to come to agree with me—and there is certainly no sign of that—we would have a gradual transition. Once American consumption begins to decline, it might actually decline rapidly. Although we would still have to import gasoline, it would tilt the balance of power between us and the oil exporters back toward us, and would have a political effect. That's the first point I want to make.

The second point is that I believe, although I don't think I go into it in any detail in *The Frugal Superpower*—I have to reread the book because I haven't read it for awhile—

**DAVID SPEEDIE:** It's worth the read.

**MICHAEL MANDELBAUM:** Well, that is the message we want to convey, so thank you. When I did read it, I remember enjoying it.

**DAVID SPEEDIE:** You're reviewing your own book, as we discussed before.

**MICHAEL MANDELBAUM:** Indeed.

The chances are not bad that we will have either a gasoline tax or a broader energy tax—a carbon tax—in the not-too-distant future. It will be in the lifetimes of those sitting in this room, and none of us is a teenager as far as I can tell.

The fiscal condition of the United States is going to become so dire at some point that a new consensus will crystallize, first in the political class and then in the country, that something serious and urgent has to be done to reduce the budget deficit. That will require more revenues. We won't be able to do it politically just by cutting programs.

If and when that becomes the consensus, then the question that the country and the Congress will have to confront is not "Should we raise taxes?" to which the answer is always "No." Rather it will be "What taxes should we raise?"

If and when that becomes the operative political question, then gasoline taxes in particular and energy taxes in general begin to look, not exactly attractive, but less unattractive compared with others than they do now. It looks better to raise consumption taxes, for a variety of reasons, than to raise the income tax or the payroll tax, which are the two major sources of federal revenue in the United States.

Within the family of consumption taxes or value-added taxes, an energy tax looks less bad than others. You are not going to tax food. You are not going to tax things that Americans make if you can help it, because that costs jobs. So why not tax something that we import?

We import energy. We don't import all energy. If you want to tax all energy, if you want a carbon tax, you've got to tax coal, and then you've got to deal with the coal lobby.

All of which is to say that my hope and modest expectation is that we will get the kind of policy I call for, although not for the reason that I call for it. It will come through the back door.

## Questions and Answers

**QUESTION:** Susan Gitelson. You're really a front-door person, because you're so sensible, and it's important that people get your message and take it seriously. I read it first in [Tom Friedman](#), who certainly thinks along the lines that you do, and he was touting electric cars and everything else.

**MICHAEL MANDELBAUM:** Or it might be better to say I think along the lines he does. In any event we think alike.

**QUESTIONER:** Well, you wrote the book. We'll see.

The gist of my question is: How can you find more allies who are sensible? What do you do in our political system where, for example, the Republicans are calling for tax cuts, for the rich especially, and greater austerity, but cut out programs? What do you do with the people, and so on? How do you see your ideas playing in the actual political system?

**MICHAEL MANDELBAUM:** That's a very good question. I'm afraid I don't have a good answer to it.

I could say that that's not my job, that's the job of the politicians.

I will say that David and I for many years worked on a project that organized annual conferences for members of Congress. These conferences in my case were about Russian-American relations, and David was involved in some other conferences as well. The two of us got to know members of Congress quite well, and to know them is to like them and generally to be impressed with them.

I found that, virtually without exception, when I would raise the issue of energy taxes and the deficit more broadly, they would agree with me. They understand the situation. They just felt that they couldn't take affirmative action to deal with the problem because it was political suicide.

Whose fault is that? That's our fault. We have met the enemy and he is us. We get the kinds of politicians we want. There is a feeling in the American public that we have an entitlement to get forever more than we pay for. I don't quite know how you change that.

As an academic, I have to admit that I am at least as interested in the question of why that is, as the question of what to do about it. This book is my contribution to doing something about it. The more people who buy, read, and are persuaded by the book, the greater will be the cadre of right-thinking, sensible people.

Having said that, let me go back and reaffirm my original point. You've asked the \$64 trillion question. I don't have the answer.

It reminds me of that wonderful line from [Joe Kennedy](#), the patriarch of the Kennedy family. Somebody once said to him, "What's your secret? How did you produce such energetic, resourceful, creative offspring? How did you get such great children?" Joe Kennedy said, "I don't know what the secret is. If I did, I'd bottle it and sell it."

I've tried to write it and sell it. Whether that will make any difference, I don't know.

**DAVID SPEEDIE:** Just by way of follow-up to that, although we resolutely avoid any partisan political comment, there is an article in *The Financial Times* today that compares the conservative platform in Britain under [Cameron](#) with the Republican campaign statement issued, which basically calls for keeping the tax cuts without severe program cuts. That's clearly an issue.

**MICHAEL MANDELBAUM:** Since the British conservatives have gone in the opposite direction, we should ask somebody who knows the British political system well why their conservatives are so different from our conservatives? Our liberals aren't great on this subject either. Maybe we can have another such session in which I could interview David.

**DAVID SPEEDIE:** That sounds like a good idea, although the conservatives would hardly like me speaking for them.

**MICHAEL MANDELBAUM:** Nor would the English.

**QUESTION:** Stephen Blank. We are likely—or at least it's possible—to see very loud new voices in the U.S. national political spectrum, in this final end of the postwar Republican party. What do you see as their foreign policy ideas? If we do see this kind of surge of this new populist voice—it's hard to say Right—what will they put on the table?

**MICHAEL MANDELBAUM:** It's an interesting question, what the Republican foreign policy would be, because the last Republican foreign policy gave us Afghanistan and Iraq. Whatever you think of those policies, the country didn't like them and they rejected them. What would come next I don't know, and I suspect they don't know.

We do know this. The numbers don't lie. The first chapter of *The Frugal Superpower* is called "The Tyranny of

Numbers." There's a difference between what you want to do and what you can do.

The theme of this book, as David elegantly summarized, was that what we can do is going to be narrower no matter which party is in power and who is president.

The next president, whoever he or she is, and this president as well, will have to deal with narrowing financial circumstances and will have to make foreign policy decisions on the basis of a narrower range of choices than we have become accustomed to. The rhetoric doesn't reflect that yet, so it's a little difficult to predict what our political leaders will do when reality becomes unavoidable. But it will become unavoidable.

**QUESTIONER:** Let me just follow up quickly. What do you think in the near term would be the result, in the next six years say, of a major election victory of Tea Party types in this election and a defeat of [Obama](#) in two years?

The crisis you suggest would not yet be upon us. What do you think these people would do?

**MICHAEL MANDELBAUM:** I don't know. I don't think they know.

What I don't think they'll do is what they have said they are going to do, because I don't think they will be able to do it. I don't think that the people running for Congress on the platform that there will be more tax cuts and no expense cuts are going to be able to do it, because the bond market won't let them get away with it.

I think we'll have a dollar crisis, maybe in this next Congress, if they really try to carry out these policies. There will be a point at which people will flee the dollar, for all of its importance. Some people say that this is already happening, that people are dumping dollars and going to commodities.

If you look at the gap between America's obligations and the amount of money it raises in taxes and you look at the trajectory of that gap, which is pretty horrifying, the debt goes ultimately to 100-plus percent of GDP.

I don't think there's any country that we know about that has failed to deal with such a problem by printing money, by inflating the currency. If that happens, you've got a whole different situation in this country and in the world.

You don't want to be the Congress or the president responsible for that.

If you don't want to be responsible for that, you've got to do something else. That something else is to raise taxes and cut spending. There are limited options here.

Our politicians promise a lot of things. But the clear implication of this book is that they are not going to be able to deliver. What they do when they can't deliver, I don't know.

**QUESTION:** James Starkman. There are elements of the conservative Right in this country which are proposing cutting taxes and cutting spending. They are doing it in a way, for example in a three-tier flat tax, where the so-called rich would be taxed at a high rate, let's say 36 percent, middle income people maybe 24 percent, and low-income people 10 or 12 percent. It has been estimated that about \$400 billion of presently uncollected taxes under the present system would overnight flow into the Treasury by virtue of the simplicity of a plan of that nature.

There are vested interests of tax accountants, tax lawyers, and accountants who would fight such a system. But it would appear to be the right formula for filling the bill. What are your comments on that?

**MICHAEL MANDELBAUM:** The important hurdle to get over is the acceptance that taxes of some kind are going to have to go up and spending of some kind is going to have to go down. Then you start negotiating. Then, the issue is not whether but how. Then normal politics takes over, which is fine, as long as everybody understands what the end result has to look like.

I don't know what the ideal tax system looks like. I don't know what the fairest menu of budget reductions is. In the end there is no such thing. You decide these by politics. You negotiate about these issues. But first you have to agree about what you are negotiating about, and we haven't reached that point yet.

**QUESTION:** My name is Bryn Cohen. With the tremendous amount of money that has been in outflow from this country into China, with their manufactured goods, initially we had hoped that we were going to maintain the high-tech jobs here. There was an article in *The Financial Times* last week that spoke to the opposite point of

view, that the cheaper manufacturers over there are also finding it extremely convenient to have the high-tech industries next door. Unless we think out of the box, are we going to be left manufacturing anything, or are we just going to be flipping hamburgers?

**MICHAEL MANDELBAUM:** China's trade policy is a problem. It's a problem for everybody. China pursues a mercantilist trade policy. It keeps its currency artificially low.

There are several efforts underway to deal with that. How that is going to be resolved I don't know.

It is actually not good for China. It is a little odd that a country with hundreds of millions of poor people should be, in effect, subsidizing the consumption of one of the richest countries in the world, namely the United States. All the money that they are lending us could certainly be used for Chinese people to buy things. It's not as if all Chinese are rich and don't need anything. That is an important international economic problem.

It is important to remember, that although China is one of the world's largest exporters, it is a big manufacturing company. In fact it is not exactly a manufacturing company. It is an assembly plant, it's a packaging company, for all these high-tech products. The products are designed somewhere else, mostly in the United States, and then most of the expensive and the intricate parts are made somewhere else, and then they are assembled in China by these young women from the villages who don't cost very much and they are very reliable. Then they are shipped overseas.

If you read the analyses of China's role in the global economy, you will find that for these high-tech products only about 10 percent of the purchase price stays in China. China assembles so many and they're starting from such a low base that they do very well, and the salaries aren't high.

But China is not reaping the main benefits of high-tech industry. It's the designers and the manufacturers of the most important parts. It is the goal of the Chinese government to be able to move up the value-added chain, to do the designing themselves.

There is no doubt that the United States has lost manufacturing jobs. On the other hand, that is not necessarily a bad thing, if more people are gainfully employed and productively employed in service jobs.

After all, 100 years ago, 40 or 50 percent of the American workforce was in agriculture. Now 2 percent is in agriculture. But our agriculture is much more productive, and the 48 percent that used to be in agriculture is doing other things that add more value to the economy.

The rise of China, India and other low-wage countries that get involved in manufacturing is not, per se, a bad thing for the United States. It is, in fact, a good thing.

In order to take advantage of this division of labor, American blue-collar workers, or Americans who used to do blue-collar work, have to find other work. They have to find, in order to move up economically, jobs that require higher skills, which means that they need better education. This comes back to our educational system, about which I am happy to say, I am not an expert.

So the China problem—and in some ways it is a problem—comes back to the American education system.

**QUESTION:** My name is Alberto Turlon. I am European. I look at the U.S. foreign policy from an external point of view.

My question is about the values which have driven the American foreign policy in the last century. We learned that values play a big role in shaping the foreign policy, most notably human rights and democracy. You described United States' fall from being the billionaire in the world, to the, I hope, upper-middle-class club of countries. Will there also be a decline of values in the global foreign policy?

**MICHAEL MANDELBAUM:** American values remain constant. The capacity to implement those values does vary. As I was saying to David, insofar as one way that values were expressed in foreign policy was through the kinds of military interventions that we saw in Somalia, Bosnia, Haiti, Kosovo, Afghanistan, and Iraq.

Let's not forget that although the last two interventions are now not popular in the country, they did remove terrible dictatorships and liberate people. All of those interventions have a claim to furthering American values.

But those interventions are not going to be repeated. Insofar as the expression of American values in American

policy depends upon such interventions, there will be less of them.

**QUESTION:** Nancy Kirk. Will there be more interventions on the humanitarian side? In other words, since they are less expensive, will the State Department start getting more money while the Defense Department gets less, and that we won't think only in terms of soldiers conquering land, but taking care of natural disasters, our ex-presidents' charities, that kind of philanthropy?

**MICHAEL MANDELBAUM:** That's the plan. But there will be restrictions on foreign spending of all kinds.

Remember, when there is a disaster far away, in Indonesia for example—or even in Haiti, not that far away—the president says "Do something about this." Or, if you are the national security advisor, whoever is in charge of it, the first thing you think about is logistics: "How do I get stuff there? How do I get people there? I can get this stuff, but how do I get it there?"

You need a lot of transportation. Who has that transportation? You're not going to conscript American Airlines. It's the military.

**QUESTION:** My name is George Paik. I absolutely agree with your analysis and your identification of key factors. I wondered if we could go the next step. Some people are reaching in that direction. Are there particular features of the international scene, be they geopolitical or economic, or even moral, that we must maintain and have? What kind of capacity across all spectrums of capacity do you think we might have to maintain them?

Once we realize there's a decline, do we pretty much risk losing the things that we might really need? I wonder if you've given some thought to analysis of that.

**MICHAEL MANDELBAUM:** I'm glad you asked that question, because I wrote two chapters on it.

The three most important missions that the United States carries out in the world are its military as well as its diplomatic presence in Europe, East Asia, and the Middle East.

In Europe and in East Asia, the United States' military presence serves as a kind of buffer between and among countries that are not adversaries but are not altogether comfortable with one another.

In Europe, the American presence, which has been greatly reduced since the Cold War but still exists, reassures the Germans and other Western Europeans that if Russia carries out an aggressive foreign policy, the United States will be there to help. At the same time, it reassures the Russians—who were invaded, to devastating effect, twice in the last century by Germany—that Germany will remain anchored in an American-dominated alliance and therefore will remain benign.

Similarly, in East Asia the American presence reassures the Japanese and others that if China adopts an aggressive foreign policy, the United States will be on the scene for the purposes of deterrence. At the same time it reassures the Chinese that the Japanese will not conduct an independent military policy.

That's worth a lot. It doesn't mean that the withdrawal of the United States will lead immediately to war, but it will lead to heightened uncertainty, and therefore suspicion and conceivably arms races, and maybe even down the road to conflict. It is an insurance policy that is worth having.

In the Middle East the situation is a little different. There, there is a clearly aggressive country that seeks to dominate the region and its oil resources, evict the United States, overturn regimes that are favorable to us, and destroy and commit in effect genocide—that is Iran. The United States is the main deterrent of Iran, because none of the countries in the region is willing to or capable of playing that role, with the very partial exception of Israel. But Israel isn't enough.

I worry much more about Iran than North Korea, even though the profiles of the two countries are in some ways the same, because North Korea is surrounded by real countries. Japan, South Korea, and China are real strong, coherent nation-states that are capable of acting for themselves.

That is not true in the Middle East. The oil sheikdoms are not capable of defending themselves. Therefore, we have to do the job.

I do worry that the coming political climate, driven by the coming economic climate in the United States, will reduce the willingness and the ability of the United States to play the necessary role in checking Iran.

That is connected with my policy prescription for higher gasoline taxes, because the most important thing we can do for the Middle East from our point of view is make it less important.

The last two administrations have tried, each in a different way, to reform the Middle East. The [Clinton](#) Administration had the Arab-Israeli peace process. The [Bush](#) Administration had the democratization of Iraq. Maybe both of them will work someday, but they are not working now.

Our policy ought to be based on the realization that we are not going to change the Middle East fundamentally, and that we therefore should reduce our exposure to it. Our exposure depends almost entirely on oil.

**QUESTION:** Thank you. William Verdone.

In keeping with the thread of oil and what you said about the dollar and now commodities, there is a concept—and there might be an elephant in the back of the room—[peak oil](#).

Within the next ten to twelve years, all the oil that's retrievable has been retrieved. Therefore, for example, the tar sands in Alberta, where you take a dollar to refine and sell and it brings you only 15 cents at the cash register, is no longer cost-effective. That concept could drastically alter the Middle East. I wonder if you can comment on that.

**MICHAEL MANDELBAUM:** Yes. Peak oil is a concept that's based on the truism that there is only a finite amount of oil in the world and that we are past the peak. We have gotten more than half of it, and it is going to be increasingly difficult, and therefore increasingly more expensive, to get oil.

I don't know whether it is right. I mean it is surely right in some sense—that is, there is only a finite amount of petroleum under the earth's surface.

It is a pretty safe bet that the price of oil is going to go up, partly because, although there's still lots of oil left, it does become harder to get at. This is partly for political reasons, because [OPEC](#) has an incentive to keep energy expensive and has not invested a lot in oil exploration.

Most of the known reserves of oil are owned by governments. You know, Exxon can't just go out and explore. You can say, "Well, if there's oil out there and it is going to be expensive, Exxon can always raise money to drill." That's true. But where most of the oil is they can't get political permission to drill.

In addition, the price of oil is likely to go up because demand will increase, because the Chinese, and to a lesser extent the Indians, are buying cars.

Whether or not you subscribe to a particular iteration of the peak oil theory, it is not hard to conclude that the price of oil is going to go up, that there's a secular trend.

The price of oil always zigzags, and that undercuts efforts to conserve relying purely on the price of oil.

The price of oil skyrocketed in the 1970s because of the two oil crises and then it went down again. Many of the gains were given back. People had been buying fuel-efficient cars. Then, when the real price of oil went down, they began buying SUVs, and now we've got a whole fleet of SUVs.

I conclude two things. First of all, the price of oil over time is going to go up, and that is a bad thing for us economically, and especially politically. Second, we would be better off economically and politically if, rather than simply letting nature or politics take its course, we artificially intervened to raise the price of oil, or at least put a floor under it, so that we would get the appropriate responses.

We need a price signal where oil is concerned. Only government can give a strong enough price signal.

**QUESTION:** I am Jim Gannon, with the Japan Center for International Exchange.

In the political climate of scarcity that you described where there will be less tolerance for overseas commitments, it seems to me you'd have a situation where it is a lot easier to mobilize funding politically for crises rather than farsighted interventions; more money for disaster relief than for [ARVs](#) [Armed Robotic Vehicles]. It seems to me you'd have a foreign policy that is more reactive, more crisis-driven, and less judicious.

If I got Mr. Speedie right at the beginning, he paraphrased your argument that in the future the United States would pick and choose more judiciously among its foreign policy commitments. I assume that is a normative argument.

How do you square the two, first of all? Second, do you have confidence that our political institutions are sufficient for us to be able to be picking judiciously amongst our commitments in the future?

**MICHAEL MANDELBAUM:** I'm not sure I understand your question, but I will answer what I take to be your question.

The political system will have to respond to the new economic circumstances. I hope it will respond judiciously. I don't know that it will. I can't predict the future, obviously.

You make an important point. Foreign policy tends to be reactive and crisis-driven and policy tends to be crisis-driven, and it is true that a crisis is a terrible thing to waste. We wasted 9/11, in retrospect, in that that was the time to raise gasoline prices, and we could have done it then.

That raises the question of how the signal that our economic circumstances have changed dramatically will be transmitted to the American public. There is every chance that there will be an economic climate like [September 15, 2008](#). There is every chance of a dollar crisis, where people start to flee the dollar, interest rates skyrocket, we fall into a deep recession, and suddenly people say, "Oh my God, what do we do?" If there's another deep recession, we don't have the resources for deficit spending. We are not going to be able to borrow as many dollars.

Maybe it will take an economic crackup to persuade the country that we can't continue on this course. But I am convinced that something will happen to persuade the country of that point.

In the book I lay out the appropriate responses. Whether they will be the actual responses, I'm not sure. One of the reasons that I wrote the book was to make the case that this is what the country should do in these coming circumstances.

**QUESTION:** I'm Devin Stewart from the Carnegie Council and former student of Professor Mandelbaum. Good to see you.

Are you worried about conflict relating to resource scarcity around energy?

Another related question is: Are you worried about the downside of possible instability in the Middle East if demand for oil does decline? Some analysts have brought up this as a scenario.

**MICHAEL MANDELBAUM:** As one would expect from a former student, those are two excellent questions.

Competition for resources, in theory, shouldn't happen. In theory, the Chinese shouldn't be worried about locking down secure supplies of oil, because oil is a globally traded commodity, so it is fungible. But that is not how the Chinese are responding.

Not only that, the Chinese seem to be—or at least some believe—that the Chinese are worried enough about the security of their supplies of oil to build a blue-water navy, which would inevitably challenge that of the United States.

It is not difficult to sketch out a scenario in which competition for resources, especially oil, could lead—not rationally, not necessarily, but in some ways irrationally—to conflict.

This is the point at which one reminds one's readers, as I do in the book, that one of the causes of World War I was the Anglo-German naval rivalry. That is yet another reason to reduce the world's dependence on oil, because it is a conceivable cause of Sino-American conflict.

As for the possibility that a decline in oil revenues will destabilize regimes in the Middle East that depend on them, that is a very good point.

In at least one case that is what we want. We want the Iranian regime to fall. We want it to go away. We don't want it to have resources to buy enough to support and to pay its goon squads to stay in power. In the Iranian case that would be a good thing.

In the case of the Saudis and the Kuwaitis, there are two possibilities. One is they would have to reform and have a real economy, in order to pick up the slack if they got less money from oil. Or, there might be political instability there. If we depended less on oil, it wouldn't matter as much. And anyway, it would be a worthwhile price to pay.

**DAVID SPEEDIE:** Michael, I can't resist closing by asking you to broaden things just a little bit. In doing so, I quote your aforementioned good friend Tom Friedman, who wrote a recent column in *The New York Times* titled "[We're No. 1\(1\)!](#)"

In this, Tom Friedman contrasts the Greatest Generation and the challenges they faced—the Depression, Nazis, and Soviet communism—and the sacrifice that they were willing to make.

He contrasts that with our shared Baby Boomer generation, and the problems that are listed. "Our generation's leaders never dare utter the word 'sacrifice.' All solutions must be painless. Which drug would you like? A stimulus from Democrats or a tax cut from Republicans? A national energy policy? Too hard."

He concludes by saying: "Our leadership message to the world (except for our brave soldiers): 'After you.'"

I assume you probably don't necessarily agree 100 percent with your friend on this.

**MICHAEL MANDELBAUM:** I'm not sure how I would disagree. Alas, I fear that is right.

**DAVID SPEEDIE:** Even the "After you" part?

**MICHAEL MANDELBAUM:** That is probably a reference—or could be a reference—to the motto of the Israeli army. The Israeli commanders always lead from the front, and their motto is "After me." You never ask your subordinates to do anything that you are not willing to do. You put yourself in harm's way.

Our motto is one that was expressed long ago by a now deceased, and possibly forgotten, chairman of the Senate Finance Committee, [Russell Long](#) of Louisiana, who said that the average American's view of taxes is expressed in a ditty that he made up, which is: "Don't tax you, don't tax me. Tax that fellow behind the tree."

Well, like the [Wizard of Oz](#), there is no one behind the tree.

**DAVID SPEEDIE:** A nice quote.

The book is *The Frugal Superpower*. I just noticed actually from here, Michael, the cover displays a rather shabby-looking American-flag-style wallet with \$2 protruding from it. I assume that's not quite how you see our parsimonious state of affairs.

**MICHAEL MANDELBAUM:** When the cover was first designed by the public affairs designer, it was that design, but the wallet looked spiffier. I said, "No, it has to look battered."

**DAVID SPEEDIE:** Well, it certainly does.

Now I ask you to join me in thanking the author very much for being with us.

**MICHAEL MANDELBAUM:** Thank you.

**Download:** [The Frugal Superpower: America's Global Leadership in a Cash-Strapped Era](#) (PDF, 174.69 K)

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