

Liberal Realism

The Foundations of a Democratic Foreign Policy

—G. John Ikenberry & Charles A. Kupchan—

THE UPCOMING presidential election represents a defining moment for the United States and its engagement in global affairs. The foreign policy of the Bush Administration represents a radical departure—in principle as well as practice—from the tradition of liberal realism that guided the United States throughout the second half of the 20th century. The Democratic Party promises to reclaim liberal internationalism, restoring a centrist foreign policy guided by ideals as well as power realities. On offer are two contending visions of America's role in the world. In one, international order arises exclusively from U.S. pre-eminence, with America wielding its unchecked power to keep others in line and enforce international hierarchy. In the other, international order arises from the coupling of America's pre-eminence with its liberal founding principles, with the United States wielding its power to craft consensual and legitimate mechanisms of international governance. Which vision prevails will have enormous consequences for global politics.

We have two principal objectives.

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First, we illuminate the contrasting logics that inform policy choice, hopefully contributing to a richer public debate. Second, we contend that liberal realism has clear advantages over the approach of the Bush Administration; a Democratic foreign policy guided by it would enhance both U.S. security and international stability. We examine the five core issues that provide a conceptual foundation for a U.S. grand strategy: the operation of the balance of power; terrorism and its impact on the international system; the role of rules and institutions in maintaining order; the connection between legitimacy and international governance; and the management of deficits, trade and the global economy. We first outline how each of these issues affects U.S. policy and global politics, next describe and critique the Bush Administration's approach to each issue, and then go on to examine our Democratic alternative and its advantages.

Operating the Balance of Power

BELIEFS ABOUT the dynamics of power balancing and the effects of polarity on system stability play a central role in the formulation of grand strategy. Three sets of questions are at issue. What are the systemic effects of unipolarity, and, in light of those effects, how should the United States wield its primacy in order to promote stability? How durable is unipolarity,

and what strategy should the United States pursue to shape the emerging geopolitical environment? Should U.S. power be measured primarily in material terms, or does a multi-dimensional approach offer a more accurate measure of America's relative power position?

To its credit, the Bush Administration has taken a clear position on each of these vital questions in the aftermath of 9/11, articulating its views in its *National Security Strategy* and supporting documents and speeches. For the Bush team, international order is a direct by-product of U.S. primacy. System stability increases in step with U.S. power; the starker the asymmetries, the less likely it becomes that any nation will even consider challenging the U.S.-led order. The United States should demonstrate its political willingness to use its preponderant power as it sees fit—especially after 9/11—enhancing its ability to dissuade potential challengers and to counter unconventional threats before they compromise U.S. security. In sum, uncontested U.S. primacy coupled with unmistakable resolve will forestall balancing in the international system, instead establishing stable hierarchy. As President Bush stated in a speech at West Point in June 2002,

America has, and intends to keep, military strengths beyond challenge . . . thereby, making the destabilizing arms races of other eras pointless, and limiting rivalries to trade and other pursuits of peace.

This strategy is predicated upon the assumption that unipolarity is sustainable for the foreseeable future and should be preserved for as long as possible. American preponderance will discourage potential challengers from seeking the resources needed to contend for primacy, and even if dissuasion fails, no state could conceivably pull even with the United States for decades to come. Such confidence is based primarily upon America's

military superiority and the presumed maintenance of that superiority due to ongoing investment in capability as well as research and development. The leverage provided by such pronounced material advantage, coupled with the importance of demonstrating U.S. resolve, makes it both possible and desirable for the United States to act in a unilateral and unconstrained fashion; allies are not needed to tame enemies that are no match.

THESE GUIDING suppositions are fundamentally flawed. Basing America's grand strategy on them triggers exactly what the Bush Administration is seeking to forestall: balancing against U.S. power. The Bush Administration is correct that the current international system is unipolar and that U.S. primacy is uncontested. It is also correct that in the post-9/11 world, America must vigilantly protect itself against the threats posed by Islamic extremism, international terrorism and WMD, when necessary using its military superiority to do so.

It is misguided, however, to assume that America's preponderant power, when combined with an assertive unilateralism, promotes stability as a matter of course. As the record of the past four years makes clear, the unfettered exercise of U.S. primacy has not led to deference and bandwagoning, but to resentment and incipient balancing. The problem is not unipolarity *per se*, but changes in the exercise of U.S. power that have in turn changed foreign perceptions of U.S. intentions and how the United States will use its preponderant strength. A dominant America that reassures others and deploys its power to secure public goods induces systemic stability; unfettered primacy deployed in the exclusive pursuit of national self-interest does the opposite.

The Bush Administration's grand strategy rests on a second geopolitical misconception: that U.S. primacy is

urable. To be sure, America's economic and military might ensures that it will remain the world's leading nation for decades to come. But current power asymmetries will inevitably diminish in the years ahead. The European Union's wealth already rivals that of the United States, and it may well forge a more independent and unified security policy as this decade proceeds. Over the course of the next decade, Japan may tire of always following America's lead, China will emerge as a major power, and Russia, India and Brazil are poised to become stronger and more assertive players. It will be impossible for the United States to sustain current power asymmetries. Indeed, if America seeks to preserve unipolarity and its attendant sway over global affairs, it will only ensure that other centers of power, as they rise, array their strength against the United States.

Finally, the Bush Administration has overestimated the advantages of military superiority and mistaken brute strength for influence, producing adverse consequences on a number of fronts. In Iraq, Washington was correct that Saddam Hussein's regime would crumble under the U.S. onslaught, but it failed to appreciate that the invasion would spawn a dangerous mix of nationalism and religious extremism, leaving the United States struggling against a guerrilla insurgency that effectively neutralized America's military might. In similar fashion, the Bush Administration is aware that its unilateralist bent has provoked anti-American sentiment in many quarters, but it has discounted the discontent because countries opposed to U.S. policy do not have the military wherewithal to stand in America's way.

Although it is correct that other countries are not forming alliances against the United States, Washington is overlooking the more subtle forms of balancing that are occurring—with potent geopolitical consequence. The broad

coalition that blocked UN authorization of the Iraq War denied the United States the legitimacy of international approval, substantially raising the economic and political costs of the war. Allies bore 90 percent of the costs of the Gulf War, but the American taxpayer has financed most of the current operation, and Washington has been unable to convince key allies to send troops to Iraq. If the United States continues on its current course, it will enjoy military supremacy, but little else.

FROM THE perspective of liberal realism, management of the global balance of power would be based on three propositions. First, the United States must wield its superior strength in concert with others to ensure that it forestalls rather than invites balancing behavior. Re-establishing America's bona fides as a *benign* hegemon necessitates resuscitating the alliances, institutions and consultations that have eroded under Bush's watch. The United States should of course reserve the right to act alone as a last resort, but Washington must rediscover that the costs of unilateral action usually far exceed the costs of seeking consensus.

Second, liberal realism entails moving with—rather than against—the secular diffusion of global power. The scope of American primacy will wane as this century progresses; the ultimate objective should be to channel rising centers of strength into cooperative partnerships with the United States. Furthermore, strength elsewhere, even if it comes at the expense of America's relative power, need not come at the expense of its influence and security. If rising centers of power are integrated into a rule-based order, they promise to be net contributors to international stability. Americans would benefit substantially from a Europe that is capable of projecting power outside its neighborhood and sharing risks and responsibilities with the United States. China is

emerging as one of Asia's dominant states; what is in question is not whether its power will rise, but the ends to which it will use its growing strength.

Third, liberal realism rests on a multi-dimensional understanding of power, sensitive to the fact that America's military supremacy, although a vital element of national strength, is not sufficient to safeguard American security. The United States should continue to invest in its armed forces and maintain its pronounced military advantage, but absent respect for U.S. leadership abroad, U.S. primacy does more to divide the world than to unite it. Washington needs to renew the non-military dimensions of its global influence, working to reclaim its moral authority abroad and to make disaffected allies again feel like stakeholders in the international system.

The International System & Terror

THE TERRORIST acts of September 11 necessitated a fundamental reorientation of U.S. grand strategy. A grievous attack against the United States came from unexpected quarters using unexpected means; neutralizing Al-Qaeda and combating Islamic extremists became top national priorities. Amid the ongoing effort to adapt U.S. policy to unconventional threats, policymakers and scholars alike must continue to address whether the events of 9/11 fundamentally altered the international system, requiring not just adjustments to national strategy, but complete transformation.¹

The Bush Administration has taken a definitive position on this question, embracing the effort to combat terrorism as America's defining mission for the foreseeable future. From the administration's perspective, the globe's geopolitical landscape has been reconfigured. Countries are "with us" or "with the terrorists" depending upon where they stand in

America's "war on terrorism" and the "conflict between good and evil." The Bush Administration's overhaul of grand strategy included formal endorsement of the notion of pre-emptive—or more accurately, preventive—war, which it acted upon in attacking Iraq in 2003.

Whereas the Bush Administration has been right to focus the country's attention on the threats posed by terrorism and WMD, it has overreached in making efforts to combat these threats America's consuming mission. The fight against Islamic extremists should be added to the list of more traditional priorities, not come at their expense. The Bush Administration believes that the international system has changed much more than it has, embracing a distorted world-view that has spawned a grand strategy marred by excess.

Several adverse consequences have followed. To begin, U.S. policy now emerges from a conceptual template that is not shared by most other nations of the world. The events of 9/11 shocked many countries, but their world-views did not undergo a transformation anywhere near as profound as the one that has taken place in the United States. The conceptual gap that has opened up between U.S. policymakers and their counterparts abroad has contributed to the geopolitical divide that now separates the United States from many of its traditional allies.

The Bush Administration has also unwittingly advanced some of the objectives of Islamic extremists by overreacting and pursuing an errant strategy that has polarized global politics. The Atlantic Alliance has been stretched to the breaking point, with America's traditional democratic allies now some of its

¹See Philip Zelikow, "The Transformation of National Security", *The National Interest* (Spring 2003); and "One Year On: A September 11 Anniversary Symposium", *The National Interest* (Fall 2002).

staunchest critics. The Iraq War and the bungled occupation that followed have brought new recruits to Al-Qaeda and galvanized popular sentiment in the Middle East against the United States. The war itself was the product of excess and error—sloppy intelligence, faulty judgment and ideological zealotry. So too did it reflect skewed priorities, with remaining Al-Qaeda cells, weapons programs in North Korea and Iran, and nuclear material in the post-Soviet space posing much greater threats to U.S. security than did the regime of Saddam Hussein. Simply put, “clear and present” ought always to outweigh “grave and gathering.”

COMBATING terrorism and the spread of WMD would remain central to a Democratic alternative to the Bush strategy, but liberal realists would pursue these goals through more considered means.

First, Washington must embrace a strategy for combating terrorism that succeeds in keeping intact America’s key partnerships. All components of the struggle against terrorism—including military operations, intelligence sharing, asset freezing and law enforcement—are more successfully pursued if the United States has its allies by its side. Achieving this goal will mean giving up a black-and-white world-view defined by the terrorist threat and making U.S. policy more responsive to the concerns of allies. An alliance has meaning only when its members adjust their policies to take into account their partners’ interests.

Second, Washington would focus on the concrete threats to the United States posed by Al-Qaeda and other extremist networks and not be distracted by wars of choice, such as Iraq. Doing so would not only advance efforts to neutralize Al-Qaeda, but also help maintain the international legitimacy of U.S. leadership. It is important to keep in mind that the war

against the Taliban and Al-Qaeda in Afghanistan enjoyed widespread support, even in the Muslim world.

In this respect, a Democratic foreign policy should support Iraq’s transition to democracy but also limit the continuing cost of the occupation in U.S. lives, money and reputation. At the same time that Washington secures more help from its allies, it should expedite efforts to hand over security matters to a reconstituted Iraqi army—even if that means settling for less than immediate democracy. In general, the United States should continue to encourage and facilitate the promotion of democracy abroad, but it must realize that durable liberalization must come from within and not be imposed from the outside.

Third, a Democratic foreign policy would acknowledge that the Bush Administration was right to insist that new threats may at times require the preventive use of force. However, it should lead multilateral efforts to forge new rules of the road governing the use of force rather than pre-emptively announce its right to wage preventive war. Moreover, the United States should pursue the preventive use of force only as a last resort, only when facing “clear and present danger”, and only after full consultation with other democratic nations.

Fourth, a Democratic foreign policy should place much greater emphasis on preventing the spread of materials used in the production of nuclear weapons. Doing so entails expending more effort and money to ensure the security of nuclear materials in the former Soviet Union. And Washington should act on the reality that the United States has no choice but to engage in tough-minded diplomacy to neutralize—and not merely “contain”—the threats posed by nuclear programs in Iran and North Korea.

Fifth, presidential leadership will be needed to advance efforts to enhance homeland security. Reforming the intelli-

gence community and improving communication among the intelligence agencies and the FBI are particularly important. So too are efforts to expand border control and surveillance and to step up inspection at ports, especially those that serve as hubs for container traffic.

Sixth, liberal realists would step up efforts to secure a lasting peace in the Middle East and serve as an even-handed mediator between Israelis and Palestinians. Ensuring the security and prosperity of Israel is a must, but these objectives will be most durably achieved if they are part of a two-state solution that fulfills the national aspirations of the Palestinians. To move in this direction and mobilize the strong majority in Israel in favor of such a settlement, Washington must work with its partners in Europe and the Middle East to neutralize Palestinian extremist groups and end terror attacks against Israeli targets.

Finally, a Democratic foreign policy should do more to get at the causes of instability and disaffection in the developing world. The Bush Administration deserves credit for its Millennium Challenge Account, its efforts to fight HIV/AIDS and its Broader Middle East Initiative, aimed at putting in place the building blocks of democracy and civil society in the region. Follow-on initiatives should include doing more to ensure universal basic education and to eliminate global tariffs on agriculture and textiles, a move that would do much to stimulate growth in the developing world.

The Role of International Rules & Institutions in Maintaining Order

THE BUSH Administration and liberal realists embrace opposing views of the role and usefulness of international rules and institutions. The Bush Administration tends to see international rules and institutions as constraints on American power.

At best, treaties and multilateral agreements enhance the conduct of American foreign policy only at the margins. At worst, they threaten to deny the United States its sovereignty and freedom of action. In contrast, liberal realists see rules and institutions as the infrastructure of the international system and therefore central to the pursuit of America's global interests.

According to the Bush Administration and its supporters, the United States in the 1990s was ensnared in a network of "global governance" initiatives, with foreign powers seeking to cage American power in international treaties and institutions. The "new unilateralism", as Charles Krauthammer has labeled Bush foreign policy, is aimed at restoring America's freedom of action and the primacy of American national interests: "Rather than contain power within a vast web of constraining international agreements, the new unilateralism seeks to strengthen American power and unashamedly deploy it on behalf of self-defined global ends."²

This stance taps into a traditional American aversion to international institutions based on concern that they infringe on the nation's sovereignty. To bind the United States to other countries through treaties and agreements reduces the ability of the American people to exercise popular sovereignty. When President Bush indicates—as he did in his 2004 State of the Union address—that "the United States does not need a permission slip to take action to defend itself", he draws on a populist view that America alone has the right to make decisions about its security and well-being and that it is the patriotic duty of U.S. leaders to resist the efforts of foreigners

²Krauthammer, "The New Unilateralism", *Washington Post* (June 8, 2001). See also his "The Unipolar Moment Revisited", *The National Interest* (Winter 2002/03).

to subvert this sovereign right.

The discomfort of conservatives with international institutions and binding agreements is most evident when it comes to the use of force. While liberal realists are by no means willing to give up America's sovereign right to the unilateral use of force, conservatives are much more reluctant to take decisions concerning the use of force to multilateral frameworks such as the UN or NATO. When Secretary of Defense Donald Rumsfeld stated that the "mission determines the coalition", he was offering a minimalist view of alliance obligations. The United States wants allies, but only if its security partners follow Washington's lead and are useful for the tasks at hand. The NATO alliance or the bilateral security pacts in East Asia are seen purely in instrumental terms and not as expressions of a wider political partnership with deep reciprocal obligations.

FOR LIBERAL realists, this approach is extraordinarily shortsighted. The Bush Administration's attitude toward alliances has left the United States with a paucity of security partners. Washington snubbed NATO's offer of help in the Afghan War and violated alliance norms of reciprocity and consultation in the run-up to the Iraq War. As a consequence, allies willing to help with postwar reconstruction have been in short supply, leaving U.S. forces exposed and overextended. There is a second cost to Rumsfeld's "coalitions of the willing" formulation. Other countries might join an American-led military operation, but without a treaty commitment or other institutional framework for ongoing security cooperation, some may lose interest. Indeed, Spain decided to withdraw its troops from Iraq after the change of government in March 2004, and the Philippines followed suit in July to ensure the release of a citizen held hostage by extremists.

More generally, if the United States

presents itself to the world as a "norm buster"—a state that does not respect or abide by international rules and norms—it will have no credibility when it asks other states to do so. The Abu Ghraib prisoner abuse scandal is illustrative. The mistreatment of Iraqi prisoners, along with a Justice Department memorandum asserting that the U.S. president in a time of war is not bound by international conventions that ban torture, sends a dangerous signal to the world—particularly when Washington exhibits a broader antipathy toward international laws and agreements. America's moral authority is compromised, and its call for respect of human rights rings hollow, leaving American citizens and soldiers exposed when on foreign territory and setting back efforts to extend the rule of law abroad.

In contrast, liberal realists see rules and institutions as a powerful tool, multiplying American power in many ways. At major historical junctions—particularly during the decade after 1945—the United States built order and created a favorable international environment for the pursuit of its interests through the construction of multilateral institutions and pacts. A rules-based international system empowers rather than constrains the United States by structuring bargains that benefit both the mighty and the meek. By getting other states to operate within a set of multilateral rules and institutions, the United States reduces its need to continuously pressure and coerce other states to follow America's lead. Weaker states, enticed by mutually acceptable rules of the game and a more predictable America, willingly work with the United States rather than resist or balance against it. The United States does accept some restrictions on how it can use its power, but in doing so, it increases its influence by striking consensual bargains to ensure the cooperation of other states. The rules and institutions that are created serve as

an “investment” in the preservation of America’s power advantages—something that is particularly important today as the country prepares for a more diffuse distribution of global power. In the long run, the costs of reaching global consensus are far outweighed by the gains.³

Rules and institutions also advance U.S. interests in ways that are independent of their specific functions. This is particularly true of America’s alliance partnerships, NATO most of all. The American commitment to Europe and the wider security cooperation fostered by the alliance have been about more than just collective defense. The Atlantic Alliance is not only a tool to deploy power, but also a “zone of peace” that rests on a shared political identity and anchors the international system. As such, the Bush Administration’s view that alliances should give way to “coalitions of the willing” is to diminish the deeper logic of America’s postwar approach to international order. There will certainly be circumstances when the mission should determine the coalition, but consensus within the Atlantic community and preservation of that community should be fundamental American objectives.

Finally, liberal realists appreciate that extensive international cooperation is essential to countering the threats and capitalizing on the opportunities that lie before the United States. Contemporary national security threats render go-it-alone strategies obsolete. The looming dangers of today and tomorrow, such as transnational terrorism and the proliferation of WMD, can be effectively countered only through extensive forms of cooperation. The use of force may be a necessary tool on occasion, but the longer-term agenda for coping with terrorism and weapons proliferation entails intelligence gathering and sharing, law enforcement, state building and multilateral sanctions.

Multilateralism is not an end in itself and is not always appropriate, but it is key

to the attainment of America’s global interests. The guiding rule of thumb for Washington should be: “with others whenever possible, alone only when necessary.”

The Importance of Legitimacy

THE legitimacy of America as a global power rests on the ability of the United States to command the respect of other countries. When others see the United States as a force for good in the world—exercising power according to widely embraced principles and norms—America enjoys international legitimacy. American legitimacy arises from the country’s ability to convince others that it pursues collective interests, not just national ones, that its actions are justified and justifiable, and that it is a progressive force in history and a model for others. Legitimacy matters because it is the “social capital” of the international system, the normative consensus that binds states together and generates the trust and respect needed to tame anarchy and enable cooperation to flourish.

The Bush Administration, guided by four convictions, has been consistently dismissive of considerations of international legitimacy. First, it rejects the notion of “international community” and discounts the relevance of communal norms and legitimacy in shaping international politics. Because the Bush team resides in a world in which the international system is defined by the logic of the balance of power, it concentrates on deploying rather than legitimating power, overlooking the important effects of legitimacy on how others react to American leadership.

³For a full explication of this argument, see G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major War* (Princeton, NJ: Princeton University Press, 2001).

According to a February 23, 2003, article in the *New York Times*, as Bush prepared for the Iraq War, he responded to overwhelming popular opposition abroad by stating that he did not intend “to decide policy based upon a focus group.” To act against the court of world opinion, however, is not just to ignore a “focus group.” It is to jeopardize America’s ability to command respect abroad.

To its credit, the Bush Administration did try to garner international support for invading Iraq, making its case to the UN Security Council in September 2002. But it went to the UN to get a blessing for war—rather than engage in a good faith effort to find a mutually acceptable solution. More generally, the Bush Administration has been more eager to send a signal that America will steadfastly pursue its own interests than to reaffirm its commitment to international rules and norms.

Second, the Bush Administration believes that legitimacy begins and ends at home. It emerges from the consent of U.S. citizens and their representative institutions, making it inappropriate for the opinions of others to impinge on America’s own will. Prominent administration officials have repeatedly embraced this truncated notion of legitimacy when arguing that the United States need not seek the consent of other countries before acting. In remarks delivered to the Federalist Society in November 2003, Undersecretary of State John Bolton contended,

the question of legitimacy is frequently raised as a veiled attempt to restrain American discretion in undertaking unilateral action. . . . Our actions, taken consistently with Constitutional principles, require no separate, external validation to make them legitimate.

Third, the Bush Administration embraces a brand of American exceptionalism that places excessive confidence in

the nobility and righteousness of American action. As a result, differing opinions, regardless of their merit, are often disregarded. Prior to the Iraq War, France and Germany were making what proved to be exceedingly accurate arguments about the consequences of war—but Washington dismissed them out of hand as duplicitous, intended only to trip up U.S. diplomacy. Likewise, excessive confidence in the global appeal of the American way contributed to the administration’s naive assumption that U.S. troops would be greeted with glee by the Iraqi people. Indeed, the administration’s failure to grasp the importance of legitimacy in political life is at the heart of why the occupation of Iraq has been so troubled.

Finally, the Bush team believes that to be overly concerned with the opinion of other states is a dangerous sign of weakness. Simply put, legitimacy is for wimps. America must be willing to use its power assertively to advance its own interests. Administration supporters endorsed the war in Iraq in part to restore a healthy fear of American power. In a March 23, 2003, op-ed in *USA Today*, Max Boot argued that the invasions of Afghanistan and Iraq “provided a vital boost for U.S. security, not only by routing the terrorist network, but also by dispelling the myth of U.S. weakness.”

THE BUSH Administration’s disregard for legitimacy has had devastating consequences for America’s standing in the world, particularly among Europeans. The country that for decades was seen to be at the forefront of progressive change is now regarded as a threat to the international system. During the heyday of American legitimacy amid the Cold War, it would have been unthinkable for a German chancellor to rescue his bid for re-election by insisting that Berlin stand up to Washington. Not only did Gerhard Schröder do so in 2002, but candidates in

other countries—Spain, Brazil and South Korea—have thrived by distancing themselves from the United States. In a world of degraded American legitimacy, other countries are more reluctant to cooperate with the United States. Over the longer term—and in a thousand different ways—countries will take steps to separate themselves from the United States, to resist its leadership and to organize their regions of the world in opposition to Washington.

From the perspective of liberal realism, legitimacy is an intrinsic aspect of power. To care about legitimacy is not to cede American power to the UN or any other party. Instead, it is to exercise American power in a manner that continues to attract the support of others. Successive American presidents have found ways to do so because they realized that to legitimate American power was to turn coercion and domination into authority and consent. In Jean-Jacques Rousseau's famous formulation from *The Social Contract*: "The strongest is never strong enough to be always master, unless he transforms strength into right and obedience into duty."

Given the damage done to American legitimacy, a new administration needs to undertake urgent steps to repair its social and political capital abroad. Bold and visible gestures will be required. Washington provoked considerable ill will abroad by turning its back on the Kyoto Protocol; it should now pursue a follow-up initiative and commit to its own plan for reducing the emission of greenhouse gases. The United States should take the lead in reforming the UN. This initiative may entail reorganization of the UN Security Council and the earmarking of multinational military forces for UN-mandated peacekeeping operations. The United States should also enter into talks with its security partners to develop a common strategic vision about emerging security threats and the preventive use of force. Finally, the United States should make a

dramatic initiative to repair the Atlantic Alliance. This effort might initially entail a revised Atlantic Charter, followed by new institutional commitments to consultations and joint planning.

Deficits, Trade & the Global Economy

DURING the last half century, American leadership of the world economy contributed to international stability, with successive postwar presidents generally adhering to the multilateral rules and institutions of free trade. This approach was predicated on the joint gains offered by open markets as well as the belief that economic interdependence would promote integration and counter nationalist rivalry. While the Bush Administration has articulated its support for these principles, in reality it has backed away from multilateral leadership of the world economy in several important respects. Writing in the Spring issue of *The International Economy*, the Harvard economist Jeffrey Frankel argued that "President Bush turned protectionist more strongly than any other postwar president", imposing tariffs on steel and lumber products, placing quotas on Chinese textiles, and increasing agricultural subsidies. The steel tariffs were particularly harmful because they undercut political leaders in South Korea, Russia, Brazil and the European Union who were arguing in favor of free trade. The Bush Administration has also made insufficient progress in advancing the current Doha Round of multilateral trade negotiations. Its general lack of regard for multilateral agreements has reinforced the perception abroad that the United States has waning enthusiasm for a rule-based system of open markets.

The Bush Administration has also refused to make hard fiscal choices. It has pushed into law sweeping tax cuts while ramping up government spending and embarking on a massive military

buildup, resulting in the largest fiscal and current account deficits in American history. An expected surplus of \$5 trillion over the next decade has turned into an expected deficit of \$5 trillion. This failure to maintain fiscal discipline compromises the long-term health of the national economy by putting pressure on interest rates and cutting into future growth, and it exacerbates America's position as a debtor nation. The trade imbalance has contributed to the soaring current account deficit, leaving the United States ever more dependent on imports of capital, especially from Japan and China. America's twin-deficits are creating imbalances that imperil the nation's economy, leave the United States vulnerable to unforeseen changes in capital flows, and compromise its ability to provide international economic leadership.

Finally, the United States remains dangerously dependent on Middle East oil, the cost of which has soared recently. The Bush Administration's main response has been to increase exploitation of domestic oil reserves, deepening rather than limiting reliance on fossil fuels.

The global economy may remain on an even keel, but in the absence of strong American leadership to maintain stability and openness, the system is far more vulnerable to financial crisis and protectionism. Furthermore, it is imprudent to run up such high levels of foreign debt, putting too much of America's economic future in the hands of others.

A DEMOCRATIC foreign policy would entail commitment to free trade in practice and not just in name, coupled with domestic measures to soften the impact of globalization on the American worker and to include labor and environmental standards in trade agreements. It is worth remembering that behind the post-World War II decision to construct a free-trade system was a commitment to providing a social

safety net at home. Unemployment insurance, worker retraining, and other government provisions of support remain essential for advanced democratic societies to operate in an open global economy.

The United States must return to the fiscal discipline of the Clinton years. If America needs new expenditures to combat terrorism, then the country must pay the bill. Whether one supported or opposed the Iraq War, it is profoundly irresponsible to put the costs on a national credit card, leaving the charges to future generations. Although running deficits does represent a sound short-term strategy for stimulating growth, the Reagan era made clear the long-term downside of mixing tax cuts with spending increases. In contrast, the record of the 1990s demonstrates that sound fiscal policies represent the best path to long-term growth. In addition, bringing down the deficit in the medium term and other signs of fiscal responsibility make it much more likely that the United States will remain an attractive market for foreign investment.

The United States also needs to decrease dependence on Middle East oil. This historic commitment should be built on two main initiatives. First, Washington should seek reductions in domestic oil consumption, primarily by substantially raising the fuel efficiency of automobiles. Second, the public and private sectors should team up to develop alternative energy sources, limiting America's geopolitical exposure in the Middle East, hedging against the economic risks of high oil prices, and investing in the well-being of the global environment.

Reclaiming Leadership

THE EVOLUTION of the international system has reached a critical intersection. Absent the liberal brand of U.S. internationalism around which the post-World

War II order took shape, that order is currently at risk. The preservation of an Atlantic zone of stable peace—the establishment of which is perhaps the greatest achievement of the 20th century—is in question, with balance-of-power dynamics returning to relations between the United States and Europe. The institutional infrastructure central to managing the international system is eroding. Perhaps most worrisome, the United States, the nation whose dominating power makes it indispensable to the preservation of international stability, has compromised its legitimacy in the eyes of the world.

The unpredictable march of history—in particular, the end of the Cold War and the attacks of 9/11—is in part responsible

for this worrisome state of affairs, but so are the policy choices of the Bush Administration. Reclaiming liberal realism in the United States requires not just elected leadership intent on doing so. It also requires the rejuvenation of the bipartisan coalition behind liberal internationalism that was forged by President Franklin Roosevelt during World War II and sustained by successive administrations through the 1990s. Moderate Democrats and Republicans must again come together to enable America to embrace the centrist brand of global engagement that served the nation and the world so well over the course of the last five decades. If the Democrats are to repair a divided world, they must begin by repairing a divided nation. □

The Albright Doctrine Revisited

[I]f we have to use force, it is because we are America; we are the indispensable nation. We stand tall and we see further than other countries into the future, and we see the danger here to all of us. I know that the American men and women in uniform are always prepared to sacrifice for freedom, democracy and the American way of life.

—Madeleine Albright, *The Today Show*, NBC, February 19, 1998

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