Dr. Cooper began his talk by noting that he would be moving from his views on economics toward national security issues. He would begin with his take on the US economy including demographic developments. His talk would also include his views on China as a potential looming state-centric threat as well as other threats the US might face in the next 20 years.

**The US Economy Remains Robust**

Dr. Cooper noted that he was quite optimistic about the US economy

- A “terrific machine”
  - What Adams in the 19th century would have called a “dynamo”
- Many problems to be discussed but the fundamentals are extraordinarily sound
  - US economy is capable of dealing with shocks
- Wealthiest economy the world has ever seen
  - Growth per capita annually about 2.2%
  - Nothing on the horizon is likely to slow down this growth rate
- Being the wealthiest sets an even higher bar for other economies to try to meet
  - Must look decade by decade — not year by year
- Innovation pipeline is currently full
  - Not sure when some of these products will come to the marketplace
  - Can see that they are coming
- There are policy problems and other balance problems
  - Clumsy political system that still serves us quite well
- No serious fault lines on the horizon

One big difference from the rest of the world is the good US demographic situation

- Birth rates are falling everywhere
  - In richest countries mostly below 1 — below rate of sustaining the population
  - Germany and Japan have already hit their peak populations
  - However longevity improvements increase
  - China’s rate is not changing but is below 1
- Birth rates falling in the US, too, but not to below reproduction rate
  - US benefits from its high immigration rate — both legal and illegal
In 2005 there were almost 1 million legal immigrants

Consequences for national security and economic vitality
- In most other countries the rate of 18-year-olds (prime inputs to the work force) is falling about 1% a year
- Number of young adults is rising in the US and poor countries

- Demographics helps the US adapt to changes
  - Young people are usually better educated and more flexible: better at moving for work and making changes
  - This helps set the US apart

China Is Not A Looming Threat
Dr. Cooper is optimistic that China will continue its growth level at above 7% annually
- That would equate to about doubling growth each decade
- China still has huge reserves of underemployed people
  - Has built strong primary and middle school programs
  - Now moving toward strengthening high school and college programs
    - Still rationed but opportunities are opening up
    - There may be a question of some deterioration as programs increase
- China does have many more problems than does the US
  - However, current leaders are pragmatic problem solvers
  - They talk about ideology but it does not show up in policy-making

China can be expected to grow rapidly but not overtake the US economy
- Can hear talk of China as the next Super Power – not a useful term
  - Projections for 2025: China’s GDP to be $8 Trillion in current dollars
  - US is already at $13T and will shortly be $14T
  - So in 2025 will be about the size of the US economy in 1993
- With more money in the economy, China could do more things around the world
  - Problem: actually getting money into government hands
    - China currently only gets about 17% of its economy into government coffers
    - US gets about 32%
  - Of note: Among the richest countries US and Japan are the least taxed
    - Switzerland is about 33%
    - Most of Europe is about 40%
    - Sweden is at 50% and has a robust economy
- Expect that the US economy in 2025 will be about $23T
  - China will be about one-third the size
    - Will just pass Japan at that point
  - India’s economy will be closer to one-fourth of the US level
- These projections presume no major shocks
  - China/India/others may do well but will be starting from so far behind the US that they won’t be able to catch up
  - Even when added together China and India will be less than half of US level
There are discussions using different types of accounting to compare economies

- **Purchasing Power Parity (PPP)** used by some to compare countries but a mistake here
  - Would give China a bigger economy than the US by 2025
  - Conceptual error
- **Gross Domestic Product (GDP)** has been developed over many years to compare economies
  - PPP would be more appropriate to use if considered standards of living
  - But talking about geo-politics here
- China is not yet a market economy – only 90% there
  - It is tied in with the world economy
  - Now there are opportunity costs to consider
- That China bought Russian military platforms at world prices says a lot
  - Means that China could not make such items at home
  - China feels that it is important to make such things at home

Demographic figures for China based on data that is over 20 years old

- World Bank should do new surveys
- The 1985 survey came from bogus sources
- If PPP is used to measure growth, needs to be recalculated to account for projections
  - Analytical errors are involved

China will have large economy and will have a large impact on world economies

- Should reach current US levels by 2025
- Some growth issues in China will depend on oil – not energy in general
  - Wants to find an alternative to its need for oil but has not yet been able to
  - Result: China will be very interested in maintaining open sea lanes
    - Just as Japan and the US are today
    - Result: China will find its interests matching those of US and Japan
  - China has been working on oil deals with Russia but beginning to see how difficult it is to work with them
  - Problems likely to come with both sea-borne oil and liquefied natural gas

Bottom lines:

- China and India will have growing GDPs
- Japan’s GDP will grow but will also face growing demographic challenges
- The gap between the GDPs of Germany and Japan and that of the US will grow
- China will somewhat close the gap between its GDP and that of the US

**Threats That The US Will Face**

From Nature

- May be remote from the US but the US will be called on to help
- Direct impact threats would include contagious diseases
  - Would be fighting 1-cell adaptable foes
Man-made threats
- Could also be remote such as Rwanda – US pressured to “do something about it”
- Direct threats could be sub-state actors
  - Primarily Al Qaeda and its fellow travelers motivated by hatred
  - May not get access directly to the US but they will try
- State-centric threats are not on the horizon
  - Most countries still want the US to remain the leader
  - Most countries US considers threats (China, N Korea, Iran) are only threats because they consider the US a threat
    - Involves their perceptions of national security
    - Does not mean that the US must put up with their behavior about it
  - China really considers the US a threat only where Taiwan is involved
    - Taiwan has really only been ruled by the mainland about 1% of the time over the last 10,000 years
    - Still a taboo area for discussion between US and China
  - US seen as an existential threat to sitting governments – not countries
    - None plan to attack the US directly
    - Want to deter the US or delay its entrance into a theater (Taiwan)
- There is also talk of extra-terrestrial threats from asteroids

Up to 2025 no serious existential threats to the US can be seen
- As long as the US keeps its cool during crises
- US can be its own worst enemy
  - US can overreact
  - US could undermine its own system
- In the end expect that the wisdom/pragmaticism of the proverbial farmer will prevail

Conclusions: It is feckless to believe that the US could have a Grand Strategy
- US is too diverse to have one
- US has a political system that is all its own
  - Madison noted the differences
  - Very complicated
  - No chief executive can say “do it this way or we will call elections”
  - Deliberately complicated
- Example: There are always half dozen bills in Congress about reforming the Federal Reserve
  - Everyone know that they will die in committee
  - Such actions would be inconceivable in other democracies
- Whole process is chaotic going in but not at the outcome
- Actually not impossible to have a Grand Strategy – just that there are many of them
  - Adds to the cacophony of government

Harvard Professor Niall Ferguson in *Empire: The Rise and Demise of the British World Order and the Lessons for Global Power* offers some strategies for the US
- British Empire was really a force for good when everything is added up
What was the feasible alternative?

- Concluded that the UK could no longer carry the load so turned it over to its natural heir, the US
  - US needs to pick up the mantle
  - Wrote *Colossus: The Rise and Fall of the American Empire* to explain the concept further
    - *Empire* term is somewhat vague with too many negative overtones
- Might be better to consider the US as a condominium
  - US has been leader of the “free world” for 50 years
  - US has accepted this with some persuasion
  - World system now is a US-construct from the 1940s
- The world needs a leader – if not the US, then who
  - On global warming, Canada is looking for ways to get the US involved
    - Without having the US actually propose something that everyone else will automatically be against
    - Much too controversial
  - Ferguson concludes that the US is incapable of being Britain’s heir
    - US not financially strong enough
    - US is a big importer of people, not goods
    - Ferguson may be right but for the wrong reasons
  - US actually lacks the patience that the Brits used to build their empire
    - Involved in institution-building/state-building
    - US must be in for the long-haul
    - Best and brightest of Oxford and Cambridge planned long careers in the foreign service
      - “To make things better”
      - Hard to see the US doing the same sort of thing
        - US wants to be the fireman – go in, put out the blaze, leave
        - Let others handle all the follow-on task – insurance details, rebuilding, etc.

Where does this leave the discourse on national security?

- Messy picture – lots of potential contingencies
- How does the US recruit for all the things that must be done?
- US will have to face a continuing deterrent role
  - Want to be able to assure those who consider threatening the US with an end of their regimes
    - Such problems are not likely to go away
  - US already spends more on its navy than do all other navies combined
    - No quite so with all defense spending but close
    - Designed to make sure that no one considers challenging its position
  - Potential for US military operations provides a menace to potential enemies
  - Military has a track record of disciplined competence
    - Often for humanitarian tasks
- Sometimes for defense of the homeland
  - Military’s “lesser included” cases probably do not completely cover all potential problems
    - Makes things messier for selecting doctrine, equipment, training
    - Navy will need to do more of a Coast Guard role – at least away from home
    - Army will need to go back to more constabulary-type duties

**QUESTION & ANSWER SESSION**

Climate change is really a coal issue
- There is some impact from oil but it is not that big
- Must remember that a projection is not a forecast
  - Must make guesses about what growth will be
  - Brings up the problem with PPP versus GDP again
- We should expect to be in a tight oil market for 3-4 years
  - Any not-so-severe disruption will likely cause a problem
  - Learned from 1970s experience that we can weather such storms
    - Also changed the structures to handle problems better
  - Even if there is a big disruption, US can get over it in 2-3 years
  - Likely to have a big disruption before 2025, but can be overcome because of robust economy in US/Europe/China
- Observers too often assume that the MidEast and Venezuela have flexibility about selling their oil
  - Governments have made very little investment in last 20 years
    - Don’t even consider Russia in this
  - Need more investment or will start having problems with oil prices
  - US learned there are many ways to save once the price of oil gets high enough
  - Political uses of oil – suppliers need revenue as much as the US needs the oil
    - Exporters are now on a good streak because flooded with petro-dollars
    - Exporters need to keep this flow of money to placate country
      - Can’t simply cut off supply
- Climate change (a coal issue) action is really in China
  - Projections say China will build four times as many new coal-fired energy plants as the rest of the world combined
  - Each plant will last 40-60 years
  - Coal is abundant and cheap in China – long term issue
    - Must look to carbon capture and storage to help environmental problems
      - Many new ways to do it technically
      - Don’t know what ways will work best since and some will fail
      - US/Europe should use China as experimentation site
        - US/Europe would pay for new technologies
        - China would pay for the plants themselves
        - After 4-5 years will know which methods work best and can employ them more broadly
Kyoto accords are just a diversion

It is a misinterpretation that US industry is being hollowed out because of globalized jobs going overseas

- Employment in US manufacturing hit its peak in 1979
  - Since then there have been ups and downs from time to time
- Big productivity gains keep increasing the output
- Manufacturing may become like farming – keep getting more and more output with fewer and few people
  - Some sectors will likely have problems
- Manufacturing output as a share of GDP appears to be dropping
  - Prices of manufacturing goods are falling relative to the prices of services
  - If corrected for movements in relative prices, then share of manufacturing in GDP has been relative constant in last 20 years, so not a big problem
  - So much of manufactured items are imported – especially consumer goods
    - Exceptions are high end specialty items like special steels
- US may need to make some strategic decisions as did Britain with its Corn Laws
  - Decided to stop protecting domestic agriculture in the 19th century
    - Would get grain, etc. from US/Australia
  - Decision meant that had to maintain and support a strong navy
    - British Navy became best in the world for this reason
    - Vulnerabilities were to be handled by the defense establishment

Neither Venezuela nor Russia are investing enough in their oil infrastructure
- If the oil industry was more privately owned, there would be more investment
- Canada is the exception – investing a lot now
- Russia is a mixed picture – really a pipeline monopoly
  - Still some private firms
  - In last 7 years, government has gone after private firms
    - So now private firms reluctant to invest there
- Venezuela has been under invested for 50 years
  - Also has the slowest growing economy in the Americas
  - Only Cuba and Haiti are slower growing
  - Governments have siphoned off profits
    - Always a situation where current demands trump long term needs
- Aside: In US defense the 6.1 and 6.2 basic research areas have been all but eliminated from the Defense budget
  - Starving the future
  - Need a custodial view of the future
- In Venezuela, Chavez will eventually pass from the scene but the situation is not likely to get better
  - The Natural Resources Curse – creates opportunities for corruption

How did the US economy get where it is?
- The deficit is about $850B or 6.5% of the GDP
  - Equivalent situations are unknown in world economies because of US size
Most developed countries have deficits
  - Including UK and Australia which also have good economies
  - If add up all the deficits, US appears to have 70% but that does not mean it is absorbing 70% of the world’s savings
- Globalization and demographics got the US where it is
  - US stands out in the robustness of its population
- Question: In a globalized world, where do I want to place my money?
  - Even accounting for home country advantages US is ahead
  - US has 30% of the world market and 50% of marketable assets for good reasons
    - All know that they can buy/sell at will in the US markets
    - Property rights and dispute settlements are handled well
    - Fundamentals are fully explicable
  - Does not mean that there won’t be another financial crisis
    - Always partially driven by psychology
    - US manufacturing firms might like a weaker dollar
    - Eventually the rest of the world will blink on this
      - When Euro reaches about $1.40 in value people will worry
      - When it hits $1.50 expect pressure on central banks to act
    - There is no need for such a crisis
      - Can be managed by central banks
- 70% of China’s reserves are in dollars
  - Such a large debtor as the US is will always have the upper hand
  - What would China do if it suddenly wanted to get rid of a lot of dollars to disrupt the US economy?
    - $100B is hard to get rid of quickly (10s of billions can be done)
    - The most abundant paper available in Euros (the only real alternative to the dollar) is Italian
      - Would China be comfortable with that much Italian paper?
      - There is some paper available in Germany but it is only long-term
  - Getting rid of dollars would be hard to operationalize

Likelihood of disruptive innovation
- Choosing a 20-year horizon for projections was an analytic choice
  - Beyond that it is very hard to make predictions
  - Think how hard it would have been to predict the situation of 2000 back in 1950
- The New Century Fund study
  - Previously projected a world population of 3.3 billion when world had only 2.4 billion people
    - There were concerns about how that many people could be fed
    - But now the world population is already at 6.1 billion
      - Better diets and medical situations
- Major issue is inertia – like predicting where a supertanker will be
  - Can predict where it will be in about an hour but not where it will be in 5
- Changes in birth rates could cause changes but not within 20 years
- Most women who will be mothers in 2025 are already born and have been counted
- May be coming to a time of the culmination of a number of revolutionary trends
  - Bio-technology will be very different in 2050
  - Look at big changes that plastic made after 1940s