



BACKGROUND

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When It Comes to Security, It's the Economy, Stupid

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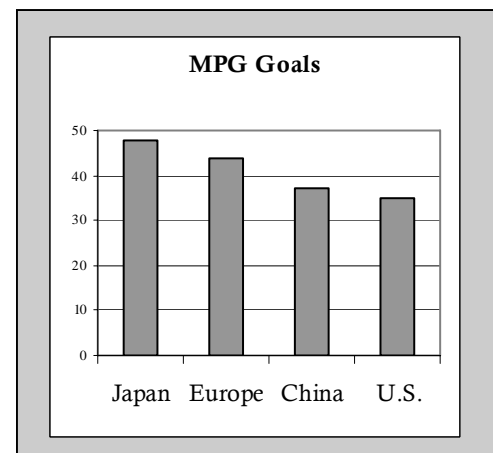
In the words of General David Petraeus, “money is ammunition.” We cannot have a steady supply of such ammunition without a vibrant economy and a strong manufacturing base. These are the building blocks of national security. Nations that derive their wealth from finance instead of manufactures – such as the former British and Dutch Empires – may generate prosperity, but they do not remain world powers for long.

A major player in U.S. manufacturing – the auto industry – is looking to Washington for a lifeline. After securing \$25 billion in loans earlier this year, Detroit’s Big Three automakers are calling for more help. This places lawmakers in a difficult position. Financial assistance will encourage bad business decisions. No assistance risks pushing the economy into a depression

As politicians debate the merits of the bailout, they must take not only America’s economic well-being into consideration, but also our national security concerns. For the sake of security, it is essential that the United States retains a viable auto industry that produces “greener” products. Whether bankruptcy or bailout better addresses these priorities is a decision for economists and policymakers. But these are the national security issues they ought to consider as they reach their decisions.

Manufacturing and National Security

A strong manufacturing base and a functioning auto industry are important con-



stituents of national security. Here are three reasons why:

1.) *The defense industry is a manufacturing industry.* The United States relies on cutting-edge technology to keep its military faster, stronger, and bigger than the armed forces of other nations. Without up-to-date machine tools and manufacturing capabilities, the U.S. will lose its technological edge in military affairs, and our national security will suffer. While trends such as the 10% drop in U.S. machine tool companies from 2002-2003¹ and the dwindling number of American engineers and PhDs in the physical sciences² have not reached a critical mass, they clearly illustrate the challenges faced by U.S. manufacturing and the defense industry that relies upon it.

2.) *Professional overlap exists between the auto industry and the defense industry.* The types of jobs that form the backbone of the auto industry – from mechanical engineers to



skilled machinists – are the same types of jobs demanded by the defense industry. A vibrant auto industry with high-paying jobs increases the pool of talented professionals available for the defense industry. Why? Because the existence of multiple industries that compete for the same skill set will create opportunities that attract increasing numbers of bright minds to engineering and similar professions.

3.) *Manufacturing is particularly adept at promoting economic growth and generating tax revenue.* When a new manufacturing product or process comes to the fore, it attracts investment and spurs research and development (R&D). Successful R&D leads to investment in new equipment and skilled workers, creating spillover effects that benefit the entire economy.³ Since 60% of all private R&D comes from manufacturing, it is the single greatest driver of innovation in the U.S. economy.⁴ Manufacturing jobs also provide greater benefits to workers than other industries and raise overall living standards. As manufacturing pushes economic growth, the government acquires the tax revenue needed to invest in all the tools required for national security.

Green Cars Make Strong Nations

Automakers factor into national security in another important way: their products consume a staggering quantity of fossil fuels. Of all the oil consumed in the United States today, 70% is soaked up by vehicles.⁵ This leaves us beholden to unstable and unfriendly oil-producing countries, such as Iran, Venezuela, and Russia. Some of this funding, in Saudi Arabia, for example, finds its way into the hands of individuals who harbor sympathies for terrorist organizations. Burning fossil fuels in our cars also intensifies the affects of climate change, from rising sea levels and stronger storms, to drought, mass migration, and the threat of resource wars.⁶ Reducing our dependence on oil and boosting our national security therefore requires a significant retooling of the U.S. auto industry. Here are two ways to encourage a greener auto industry:

1.) *Promote improved fuel-efficiency.* Automakers must work to increase the miles per gallon (MPG) standards of their fleets. In 2007, Congress passed legislation that set a national fuel economy standard of 35 miles per gallon by 2020.⁷ That standard should be strengthened. Although improving MPG standards may be onerous in the short term, consumer demand for fuel efficient cars is becoming the hallmark of competitiveness in the automotive industry. Japan has already adopted a standard of 45 MPG,

Europe is aiming for 44, and China is working towards 37.⁸ Falling behind our competitors is hardly a winning strategy.

2.) *Promote investment in non-fossil fuel technologies.* In addition to improving fossil fuel efficiency, auto-makers ought to invest in non-fossil fuel alternatives to gasoline. This could take any number of forms. Companies could retool factories to produce electric cars such as the Chevy Volt, retrain their work force, invest in green R&D, or subsidize the cost of battery technology to make electric cars more affordable to consumers. Government should not be in the business of picking favorites, so individual corporations should be free to design their own strategy for developing alternative fuel technologies. Nevertheless, they should be encouraged to adopt a strategy to move their products away from fossil fuels.

Bailout or Bankruptcy?

America's struggling auto industry presents the U.S. with a difficult predicament. Whatever politicians decide, they owe it to the American people to look beyond the present crisis and keep an eye on our long-term national security.

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Nothing written here is to be construed as necessarily reflecting the views of the Truman National Security Project or an attempt to aid or hinder the passage of any bill before Congress.

END NOTES: 1.) Farrell, "State of Manufacturing Base is Cause for Concern," *National Defense*, February 2004; 2.) Popkin and Kobe, *U.S. Manufacturing Innovation at Risk*, Council of Manufacturing Associations and The Manufacturing Institute, 2006; 3.) Popkin, *Securing America's Future: the Case for a Strong Manufacturing Base*, For NAM Council of Manufacturing Associations, 2003; 4.) Popkin and Kobe; 5.) Schwartz, "American Energy Policy, Asleep at the Spigot," *New York Times*, 6 July 2008; 6.) *National Security and the Threat of Climate Change*, CNA Corporation, 2007; 7.) White House Press Release, 19 December 2007; 8.) *Ending the Energy Stalemate*, The National Commission on Energy Policy, 2004