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HAS AMERICA'S POLITICAL DYSFUNCTION UNDERMINED ITS
POSITION AS THE WORLD'S REMAINING SUPERPOWER?

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P R O C E E D I N G S

MR. INDYK: Good afternoon, ladies and gentlemen. Welcome to Foreign Policy of Brookings. I'm Martin Indyk, the director of the Foreign Policy Program here. It's very good to see you all here in the dog days of August. But we thought that the topic of today's conversation was so compelling that it shouldn't wait until after Labor Day.

So, we're here to talk about the foreign policy consequences of domestic political dysfunction in the United States, a subject that has been highlighted by the crisis over raising the debt ceiling, and the impact that it appears to have had on brand America abroad, a brand that has already suffered some considerable tarnishing in the Bush era, something that President Obama was determined that he would refurbish to enhance our influence abroad, but now things only seem to have gotten worse.

And so, we wanted to bring together some experts from Brookings to talk about what's happening domestically and how that's impacted America's ability to promote and protect its interests abroad.

Let me introduce quickly the various panelists we have today. First of all, Tom Mann, who is the Averell Harriman Chair and Senior Fellow in Governance Studies here at Brookings. Tom is an expert on all things broken, and how to fix them, about Congress. I say that because his most recent book he wrote with Norm Ornstein called *The Broken Branch: How Congress is Failing America and How to Get it Back on Track*.

To my right here is Fiona Hill. Fiona is the director of our Center on the U.S. and Europe, and a senior fellow in our foreign policy program. She is an expert on Russian affairs, the author, together with Cliff Gaddy, of the *Siberian Curse: How Communist Planners Left Russia Out in the Cold*. And she was recently the National Intelligence Council's officer on Russia.

Next to Fiona is Bob Kagan, who is also a senior fellow in the Center on

U.S. and Europe, an expert on U.S. foreign policy. Bob is the author of a number of best-selling and profound books, including *Of Paradise and Power*, about U.S. and European relations, the return of history, and the end of dreams. And his major work on American foreign policy called *Dangerous Nation: America's Place in the World From Its Earliest Days to the Dawn of the 20th Century*. Many of you will know Bob as a columnist for the *Washington Post* and contributing editor to the *Weekly Standard*.

Next to Bob is Ken Lieberthal. Ken is the Director of our John L. Thornton Center on China. He is, of course, an expert on China, served as Senior Director for Asia on the National Security Council in the Clinton Administration, and has written a huge number of books on Chinese politics and economics, including -- I'm looking for your last book. You have to tell us -- I don't have it here.

MR. LIEBERTHAL: *The China Challenge*.

MR. INDYK: *The China Challenge*, which is about how to do business in China, or how not to do business in China.

Mauricio Cardenas finally is the Director of our Latin America initiative. Before joining Brookings, Mauricio served as Colombia's Minister of Transportation, Director of National Planning, and Minister of Economic Development. He's published several books and academic papers in his period as a think tank researcher, and has taught economics in various places, including the University of California at Berkeley.

So, I wanted to start with Tom Mann, and have you, Tom, just analyze for us the nature of the dysfunction, and whether you see this as somehow getting fixed any time soon.

MR. MANN: I can only smile, Martin. I'm afraid I'm going to start this session off without my normal burst of optimism. You mentioned the *Broken Branch*. We're writing a sequel, and the working title is, *It's Even Worse Than It Looks*.

Listen, the signs of dysfunction are all around us. Most immediately was the dreadful experience that Charles Krauthammer has seen as a sign that the American system is working, but everyone else sees as truly an embarrassment, a matter of great seriousness and potential damage, but utterly unnecessary. I'm talking, of course, about the hostage-taking of the debt ceiling increase that was planned a year earlier, used in a way that it never has been before, forcing, it was hoped, instead of changes, but in the end produced a paltry payoff that left most observers sickened by the risks that were taken on, and very much unimpressed by the results that came from it.

You put that together with sluggish growth, high unemployment, projected increase in the debt to GDP ratio, and the fact that no action on any of these matters is likely to occur before the 2012 election. And it's not clear how things will get themselves resolved afterward. The S&P downgrade was part of this; although I think the global rush to treasuries remind all of us that S&P is likely to suffer a greater downgrade than the U.S.

I think underlying these specific things are sort of two widespread views about the craziness afoot in America.

The first has to do with the contemporary Republican Party, its ideological extremism, and a sort of sense to deny reality, whether it's the efficacy of the financial stabilization and stimulus, the utility of the tax pledge, the non-existence of climate change, this occurring both among prominent leaders and members of the Party in Congress, and among all but one of their presidential aspirants. That sends a signal, I think, across the globe that sort of America is in trouble. It's fallen off track, that something is amiss, that it's not just a sort of temporary episode of conservatism populism, but one of our major political parties no longer maintains an adult status, one in which they can wrestle and are willing to wrestle responsibly over legitimate differences with the opposition and have something come from it.

And finally I think coming out of all of this now, there is developing a perception of the weakness of our President in the face of all of these difficulties. People see him in his futile search for a negotiating partner and politics to deliver on his promise of a post-partisan politics in government, and see him sort of maneuvered into a misplaced emphasis on deficits and debt at a time when the economy is floundering and there's little sign of the growth in jobs that would actually, combined with serious action on deficits, allow us to regain our footing and some traction.

I mean, I think all of those contribute to the perception of dysfunction. If you see what's coming in the next few months in the time before the election, the only solace you take is I don't think we're going to have quite the crisis that was contrived around the debt ceiling. It's past the election. We'll return to that in 2013. There's basically agreement on the budget for this coming year. Some minor adjustments have to be made, but there's no opportunity to really shut the government down over that. So, at the very least, it's possible that we won't be put through the melodrama of the last months.

Having said that, the odds of the so-called Super Committee, really a joint committee of Congress, 12 members, equal numbers of Democrats and Republicans, all of whom are viewed as reliable players by their respective leaders. It wouldn't matter if they were all wild independents. They're operating under a set of imposed political rules, the most important of which is no increased tax revenues that mean nothing of consequence is likely to come out of this.

So, we will fall back on the triggers. Of course, those don't go into effect until after the election, so there's still time to ward them off. But I think the safest bet is nothing will happen, and that will contribute to the sense that we can't function as a democracy.

And as you are seeing, we are in full campaign mode. The media is so

relieved to get away from the debt ceiling story. Really hard making it interesting. And now, they have Iowa straw polls and Governor Rick Perry and Michele Bachmann. What more do you want? I mean, the campaign is underway. Barack Obama is on the campaign trail for the better part of this week. And frankly, I see that as a plus because this Congress is fated to get absolutely nothing of consequence -- of positive consequence done as a context -- as a result of the objectives of the people who are in a position to drive it.

And God knows we need some clarity from the electorate. We may not get it, but I think you will see lines drawn in a way that we haven't in a very, very long time. It's partly as a consequence of the rightward move of the center of the Republican Party. It's partly where the energy lies. And it's partly because even President Obama has lost the patience for making nice bipartisanship and doing what responsible people in Washington feel he should do. And so, you're about to see sort of lines drawn.

But the real question is will any clarifying signal from the electorate emerge? It's mushy. It's complex. It's one of the challenges the politicians and all of us have is to try to make that clear because right now, what we have the public send to Washington is basically ungovernable. And that has everything to do with the nature of the party system and the asymmetric nature of the polarization that exists right now.

Finally, I don't see any prospects for a dramatic sort of transformational leadership opportunity breaking us out of all of this. I think we're going to have disappointingly slow growth for a long time as we squeeze the leverage out of the system, private and public. And that's going to put enormous pressures on those who are in charge, and continue to make our politics dysfunctional.

If the public wants to see something else, if they want to see some real clarity, if they don't like the blocking and so on, they will empower a single party, and they will lend their support to produce some parliamentary like institutions that can allow that

party to govern and then hold them accountable. We're not there yet.

MR. INDYK: Thank you, Tom, for the uplifting presentation.

MR. MANN: I warned you.

MR. INDYK: So now, we'll go to Mauricio for something even more uplifting I suspect. I want to ask you, Mauricio, about the way in which this fits into global economic developments. Today, we had some very gloomy news coming out of Europe about growth stalling in Germany and France. We heard Tom allude at the end to the idea that growth could solve a lot of these problems. What are the prospects for economic growth from where are today?

MR. CARDENAS: Thanks, Martin. Well, they're limited. We're talking about leadership here, and leadership, no matter how you define it, requires a strong economy. A strong economy is not an economy where recessions don't happen. Actually, recessions happen. A strong economy is an economy that can overcome recession, can adopt counter cyclical policies. But counter cyclical policies need to be credible, and to be credible, they have to have certain characteristics, like not incurring huge debts that are not sustainable.

And I think at the end of the day -- what we need and the dysfunctionality we're talking about -- is the ability to conduct counter cyclical policies that stabilize the American policy, but at the same time, provide a long-term plan for fiscal sustainability. And it's the ability to provide that plan that is causing these turmoils in today's world economy.

And I would say that to restore the leadership, to make sure that the U.S. economy is a strong economy, we need to provide that type of plan. And whether the political system is able to do it, that's, to me, the question.

What's happening in the world economy? Well, if the U.S. is in trouble -- if the U.S. political system is not working, I think things are worse in Europe, where the levels

of debt are even higher, where the sacrifices that are necessary are much greater, and it's going to take a long time before we see fiscal sustainability.

So, facing that reality, the reality of the advanced world, the advanced economies of the world that are highly leveraged. There is a group of countries, the emerging countries, that have much lower public debt that is representing a much higher share of growth that of course is seeing this with great preoccupation.

MR. INDYK: Who are we talking about?

MR. CARDENAS: We're talking about the Brits primarily, but we're talking, broadly speaking, about Asia, about Latin America, where you hear words like irresponsible policies in the U.S., or phrases talking about the parasite economies of the world, like Prime Minister Putin put it recently. And, of course, this is creating an environment where countries are looking for -- some of them with an agenda for filling up the vacuum and the space that is being left by the advanced countries, and some others with preoccupation -- with genuine preoccupation that the world is losing a key engine. We're now flying with just one engine, which is China. And I don't think that works. I don't believe that's good news for the world economy as a whole.

So, this is why the world is looking at Washington with concerns. And it's not just about the U.S. economy. I think it's a broader problem. It's about the world's economy at large.

MR. INDYK: Can I just ask a follow-up in that? In 2009, President Obama and other world leaders came together at the G20 and a grade on a course of stimulus to jolt the world out of the tailspin that the global economy has seemed to enter into as a result of the financial crisis in 2008.

What are the prospects for the G20 now being used as a vehicle for trying to overcome some of these problems?

MR. CARDENAS: Talking about the second stimulus package hearing, I'd say this goes nowhere, especially with the debt concerns. But countries in the emerging world, and particularly China and Brazil, for example, have the capacity to stimulate their economies with fiscal policies like they did in 2009 and 2010, primarily because the levels of public debt are still low, so those countries can expand government expenditures without causing the kind of concerns that we have here in the U.S., concerns about the downgrading of the treasuries, or concerns about how the markets respond to an increase in the fiscal debt. There is that room of maneuver.

But it's limited in its capacity to steer the entirety of the economy in the direction of growth. I think that will be unreasonable to expect because of domestic policies, expansion of fiscal policies in Brazil, China, India, Russia, the economy of the world as a whole can get back on track.

MR. INDYK: We'll come to China in a moment, but I just want to go to Fiona and talk about -- ask her to talk about Europe because clearly this is a crisis not just that affects America, but affects the West more generally because of what's happening in Europe today. Just give us your assessment of where things are going now.

MS. HILL: Well, the point that you just made about the figures coming in today about growth stalling in Germany and France, has certainly set increased concerns on the European front. If we had done this a week ago, this event, we might have been singling out Germany, for example, as being another major driver in the global economy and Germany still does have that prospect. Germany's fundamentals are pretty sound.

Mauricio mentioned the debt level as being higher in Europe. That's certainly the case in individual countries. If you look at the Euro zone as a whole, the debt levels collectively are not really as great. But what the Europeans are really worried is just what you have pointed out here is that it's the contagion effects on the United States.

So, if the U.S. loses its Triple A rating, what about France? What about Germany? We already have seen that in the Euro zone, contagion from the Greek crisis spilling over into Italy. Also questions now about Spain and the Spanish are extraordinarily concerned in particular about this now. They were already on the brink of having the markets respond to some real serious structural problems in the Spanish economy. And there's certainly a feeling, and it's strange the double standards in Europe, the crisis this time around was made in the United States. The subprime mortgages had all these knockdown effects. If the United States has been downgraded because of its political dysfunction, if the United States seems to have the largest debt, then at the same when there's a downgrade by S&P, where the markets flee to is the United States, just as being pointed out.

And in much of the commentary that we've seen, some of the U.S. analysts have said, well, you know, it's not so bad. Look who we're competing for with the world, the dysfunctional Europe and equally dysfunctional Japan. So, the West -- we're doing a good job of tarnishing ourselves in the West, not just the United States.

So, the fears in Europe at the moment are ones of perception. European is not counting the United States out. There's not really kind of a question about, and I'm sure Bob will comment on this. There's not really a question in Europe about the value and importance still of U.S. leadership. They are greatly concerned about populism in the United States, but they've certainly got plenty of their own problems with populism -- the riots in London and the various sort of massive debate that people have been having now and neighbor gazing in the United Kingdom, and trying to figure out what went wrong. We've seen plenty of upheavals on the streets of Athens and elsewhere, even in Israel now where we have massive protests out certainly in the Euro zone, but on sort of the fringes of the European space of people protesting austerity measures.

Populist parties have certainly made a lot of traction in politics. They've got

elections coming up in France next year in 2012, where the main competitor for President Sarkozy is not perhaps the socialists that we saw, but perhaps Maureen Lapin, a new brand of populist politician in France. And then we have the elections in Germany in 2013, where the coalition that Angela Merkel has tried to keep together is definitely fraying, and where there's a question about how politics in Germany are going to go.

So, dysfunction seems to be breaking out all over. That's what dysfunction does, so maybe --

MR. INDYK: It's like a song.

MS. HILL: The European song contest. So, we have some serious issues here that have to be addressed on all fronts. And the biggest fear is one of these perceptions -- how does one stem it, and how does one prevent this contagion effect from the fact that we're all talking about being dysfunctional?

MR. INDYK: Okay, Ken, China. Is dysfunction going to spread to China?

MR. LIEBERTHAL: Stop talking. I'm sorry, is what?

MR. INDYK: Is dysfunction going to spread to China? Well, first of all, tell us how the Chinese view all of this front paging, and then give us a sense of whether we can still rely on China to be the engine that's going to pull us out of all of this.

MR. LIEBERTHAL: Well, first on how the Chinese are viewing this and I'll comment, if you don't mind, also on how the rest of Asia is viewing it.

I think the Chinese and people throughout Asia, first of all, consider the U.S. still to be by far the most powerful, dynamic country in the world. So, it isn't like everyone has written off the U.S. by any means. We play a huge role out there, and we garner a lot of respect.

Having said that, the -- I think we're know in the region rightly as being a country that does not have an especially good record at avoiding huge errors in what we do

domestically. But what we have a terrific record at is recovering from those errors and emerging stronger than we were before.

The genius of our system is in recovery; it's not in avoiding mistakes, it's recovering from those mistakes. And the big question around Asia now is are we losing our bounce back capability? Has our political system become so dysfunction that we can longer reach the kind of accommodations and pragmatic compromises that enable us to mobilize enormous resources we have throughout our society to move forward in the future and capture the future? That's a very, very big question there.

I think the events, especially of the last couple of weeks, have added an exclamation point to that question because it's seen as a self-inflicted wound, as Tom mentioned, one that was handled monumentally badly, and whose outcome does not bode well for the future.

So, I think this has also tarnished the U.S. model of democracy, you know, because when you talk about China, what China is saying is you need a bigger state role, and you need a more cohesive state to deal with the problems that confront us. I think the Chinese have it wrong, but it's hard to argue on the basis of the last couple of weeks that we say, just look at us, and that's how you ought to manage things.

The U.S. is also seen in the region, perhaps accurately, as a country that in the past could always be counted on to be the go-to country. A, we think globally, and, B, we have unparalleled resources. The question is, in the future, are we going have to be a country that's short of cash, and sort of really does not have the capability to step up, whether it's a global stimulus program, whether it's peacekeeping, or whatever it may be, we aren't going to be there to be the leader. We'll kind of encourage others to put up the resources. That's a very different kind of perception of the U.S. role in the future.

And then you go to the trigger mechanism that Tom mentioned. It really

worried me that you said we'll almost certainly end up with the trigger mechanism, because that trigger mechanism has us drawing nearly half of the savings that are mandated out of broadly defined security system. And that will really -- if that is implemented, that will really force serious changes and serious decisions as to what we're not going to do that we otherwise might've done.

I can tell you, what we otherwise were doing, we're increasing our security related forces in Asia. And so, there's a real question as to what's going to be cut, but you can be sure countries around the region are looking at that.

That relates to a bigger issue, which is the issue of how everyone relates to China. To date, as you look around the region, every country in the region wants to benefit from China's economic growth, and to participate in that growth. And they all are. If you look around the region, China is the largest trade partner of every single country in the region. As of the 2000, we were. So, the change has been extremely significant, right? So, they all want to get that economy upside.

What they don't want to have is the Chinese leverage their economic power to diplomating military advantage. So, countries throughout the region are turning to the U.S. to say, protect us from that. Essentially, balance the Chinese diplomatically on the security side so we can benefit from the economic growth in China. Perfectly rational strategy. But insofar as they doubt our capacity to step up to the plate on the diplomatic and security side, they're going to have hedged more in the direction of China.

Within China itself, there are ardent nationalists in China who have ready access to the Web, who argue that the U.S. is clearly in decline and will not recover. And, therefore, it is time for China to press its long-standing positions on issues of long-standing neuralgia with the U.S., whether it's weapons sales with Taiwan, or whatever it may be.

Chinese leadership doesn't believe that. Chinese leadership is still sitting

there saying, you know, A, these folks are -- the U.S. is very serious in the short run, and, B, they still may be very serious in the long run. We aren't sure, so we're going to have to hold back and watch what happens there before we make commitments.

This is -- the shadow of the future really haunts Asia at this point, and the shape of that shadow is shifting. And unless we get our act together better, it's not shifting in the right directions from our perspective.

Now, in terms of the irony of this is it all assumes that China is going to continue to do very well. I think the reality is that's not certain. If you look at China for the next stimulus program, you might have a very long wait before they're going to move in that direction. They're worried about inflation, and asset bubbles, and declining export markets, all kinds of problems. And very substantial levels of social tension and potential instability. So, they are not about to start turning on the money spigots again, especially when their level of bad debt at local levels is very high, so that they are still trying to figure out how deep in the hole they are above that debt. They can manage it, but it's going to be -- we're talking trillions of dollars, not hundreds of billions of dollars.

So, this is a somewhat mixed picture. We'll have to see how it plays out. I think we're all much better off if China does well, but China may not do well, in which case I think all the problems that we've talked about are further complicated.

Let me conclude with one last remark, and that is, 2012 is an utterly extraordinary year in the Asia Pacific region. We have an election here. Chinese have their succession in the fall of 2012. Seventy percent of their top leadership will turn over. Taiwan has its election in January of 2012, Hong Kong in March of 2012, South Korea later -- as I recall, later in the spring of 2012, Russia in 2012. North Korea and Japan both have potential political changes in 2012. There has not been a year in several generations when all of the top national leaders who are essentially focused on domestic politics and the

politics of succession as 2012 will be. That's a terrible time to have a lousy economy, and there's been a lot of concerns about the future.

MR. INDYK: One of the things that -- one of the reasons that I left Bob Kagan for last here is that we can always count on Bob to take the long view -- historical view -- and tell us it's actually not as bad as we really think it is.

But let me just quote from something David Sanger wrote in the *New York Times*, Bob, and get you to respond to it. He said that "The debt crisis has chipped away at the global authority of President Obama, who was celebrated abroad when he came to office as a man who would end an era of American unilateralism. Now the topic of discussion in other capitals is whether the age of Obama is giving way to an age of austerity, one that will inevitably reduce America's influence internationally."

MR. KAGAN: Do I have to respond to David Sanger, or can I --

MR. INDYK: To be polite.

MR. KAGAN: Well, he's not here. I do think we're obviously in a serious crisis. I like a good crisis as much as the next person. But there is a way in which we are in an election season. We want to start casting blame. We want to make sure that the other party or the other president is blamed not only for the domestic crisis, but also for tarnishing America's reputation in the world.

But it's important to step back a little bit and see what the measures of American power and influence really, and ask ourselves in a kind of sober way, how much have they declined, and how much can they decline in the future? And I think -- I have to say I really very substantially agree with what Ken said, much to your dismay. I'm sorry. But this isn't on the record, right?

MR. LIEBERTHAL: That means I have to change my position.

MR. KAGAN: I mean, look, the bottom lines are these. The United States

provides and continues to provide very important global goods to much of the world, including to China. Whether it is through its security role, whether it is the fact that its economy is still the largest economy in the world, and everybody depends on, to some degree, on the health of the American economy. And I think that there is no other real competitor for the role that the United States plays, and I don't think anybody in the world thinks there is either.

We can get a little bit too caught up in our impression of brand America, but as I look back, and you asked me to take the long view, but as I look back over the past 60 years, we can tremendously overstate how wonderful brand America was in the past. I can remember periods in the past -- 1974, for instance, to pick a date, or any time between 1968 and the mid-1970s -- when the American brand was very badly tarnished by Vietnam, by Watergate, by assassinations, by the Watts riots. I don't think we're even in that ballpark now.

We do have a certain degree of political dysfunctionality. I think the world is accustomed to American political dysfunctionality. I don't think it's quite that shocking.

But the question really is are we able to provide these kinds of public goods that the United States has been providing in the past? I find it interesting that in the midst of this dreadful crisis that we've been in, much of the world would still, especially Europe, still looking at the United States to please use its military power in Libya. I must say, coming after Iraq, coming after George W. Bush, coming after the economic debacle, coming after the tarnishing of brand America, that the Arab League and the Europeans were practically begging the United States to please use force in Libya is rather astonishing and worth noting.

So now, what can happen? I think the debt crisis is serious, and I must say when Tom was saying that there's too much fixation on the debt problem, I really wanted to

go up into Alice Rimblin's office and bring her down here. I think that the debt crisis is the big crisis. I think that's what the world, and I agree with Mauricio -- that's what the world is paying attention to. They want to know whether the United States can get its debt under control.

But for me, the question in terms of foreign policy is, and Ken touched on this very importantly, what is the impact going to be on America's ability to provide these public goods, and particularly in the security area? And if the consequence of our debt crisis is, in my view, an entirely unnecessary raiding of the Pentagon coffers at precisely the moment that many people around the world, particularly in Asia, but also in the Middle East and Europe, are looking for the United States to continue playing its military role, that's when the decline begins. When we begin to cut our capacities so that we are not playing the role that everybody expects us to role -- to play, that is when the decline starts.

And I really worry that we are talking ourselves into a decline that needn't occur, and that we're committing kind of preemptive Super Power suicide for fear of dying. And I really -- I hope that as we move through this very political environment, we try to keep our eyes on the ball.

And just to end, I think that the people who think the United States is going to recover from this are right. I don't think it's going to be in 2012. I think it's going to be either in Barack Obama's second term or somebody else's first term. And I think that you have sometimes in American history -- you go through American history. Look at the year before the -- look at the 1850s. Look at the 1930s. The American process sometimes has to go through tremendous dysfunctionality before arriving at some kind of solution. And I'm fairly optimistic that we'll get that solution.

MR. INDYK: Let me just get Tom to come in here on the triggers, because if the triggers are triggered, that could in fact have a pretty dramatic effect on the defense

budget, correct? Just explain what might happen, and whether you think that's very likely.

MR. MANN: Yeah. The second part of the debt ceiling increase agreement was a target for additional savings toward the deficit. The first was roughly \$900 billion to a trillion over 10 years. The second was about \$1.1, \$1.2 trillion. If the Congress fails to receive from the Joint Committee and enact, followed by the President's signature, of a plan to do that in a rational way, then the backup is a set of automatic reductions. And those are divided roughly evenly between the defense budget and -- get this -- Medicare providers.

Now, the irony of the last is, of course, we've -- the grand balanced budget agreement of 1997 that everyone is so proud of had as the only cut that on Medicare providers. And we've been fixing that ever since, every year, so it doesn't go into effect. So, there was no savings in spending back in 1997.

Now, the other part of it is, as I said earlier, it doesn't go into effect until 2013. I don't think either party, any president, could live with that backup mechanism. So, I'm absolutely convinced that something will replace it. So, as Bob said, there is some give and flexibility in the face of non-negotiable demands that time -- T minus 1. By the time you get to T plus 3, as Churchill reminded us, we finally figure out what to do. And so, I presume we will do it.

One of the most obvious ways in the short term -- I think deficits and debt are a big problem, but I think everything we've done so far is counterproductive to it. And what I think has to happen is for Obama not to bargain away his most powerful lever for getting something constructive done, which is the expiration of the Bush tax cuts at the end of 2012. That is the one thing that makes the status quo unacceptable to Republicans who are likely to control one or both houses of Congress, even if Obama is reelected, and would in and of itself almost instantly, along with the restraints on discretionary spending, eliminate

our immediate problem and allow us to make reasoned judgments about defense spending.

So, there's hope out of this in that sense, but only if the actors who are in a position to do something about it don't act foolishly and give away the levers they have for forcing some changes that would actually deal with the problem.

It's all about taxes and health care costs. Everything else is around in there in deficits and debt. And so, we don't want to repeal the Affordable Act or disable it. We want to build on it so we can actually deal responsibly with those health care costs.

MR. KAGAN: And it's not going to happen in 2012. One of the aspects of America's ability to renew itself is that it renews its political leadership in a regular fashion, and often in a dramatic fashion. And either you're going to have a President Obama with a second term mandate able to take maybe more risks than he might've taken in a first term, or you're going to have a new president who has run on some plan which either will or will not be enacted, but I think has a better chance than we are right now.

MR. INDYK: But in the meantime, the world waits and watches.

MR. KAGAN: Well, they've done that before, right? I mean, the world had to live through the Monica Lewinsky. The world had to live -- right? I remember --

MR. MANN: It's pretty much the same.

MR. KAGAN: Well, you know, in a certain sense it was the same. I remember in 1998 that there were all kinds of editorials all over the world, what we do while the United States takes it vacation, because Clinton was paralyzed and didn't seem to be able to do anything. Republicans were at its throats. We had been through the Watergate scandal. We went through Iran-Contra. Does anybody here remember what happened during Iran-Contra and how the -- talk about dysfunction. And now Reagan is remembered as our great American president in the last 650 years.

MR. INDYK: Mauricio.

MR. CARDENAS: Just to weigh in on this, it is true that the world can wait. It is true that the world has been used to that. It is true that a Super Power status gives more degrees of freedom, but they're not unlimited degrees of freedom. And I think they are changing.

And in today's world, there is more competition for supremacy.

MR. KAGAN: Really? Among whom?

MR. CARDENAS: Well, there are others waiting.

MR. KAGAN: Who, Brazil?

MR. CARDENAS: No.

MR. KAGAN: India?

MR. CARDENAS: Well, we're not talking about years. We're measuring these in decades, right? We agree to that.

MR. KAGAN: Okay. Well then, wake me up when that happens.

MR. INDYK: Well, let me jump in on this because undeniably the balance of power is shifting. Maybe it's taking some time, but the notion that the United States is the preeminent Super Power is a little hard to maintain in these circumstances. China is emerging with a powerful economy and a huge budget surplus, which it's putting into its military amongst other things.

So, I mean, it's not as if the world now, as Mauricio said, is just watching and waiting. The world is also acting in ways that we don't have as much ability to control or even shape. So, isn't there a danger that in this period where we become preoccupied politically that others will seek to fill the vacuum or go their own way in a way that when we finally get around to it in 2013, and hopefully all of this works itself out, that we find ourselves in a situation which is much more difficult for the United States to influence?

MR. KAGAN: Look, I'm in favor of being alarmed about a lot of things, but I

really -- I want to push back a little bit on this judgment in two ways. One is from a historical perspective.

During the Cold War, Japan and Germany rose to relatively dizzying heights of economic power while the United States was preeminent. And I would say that the rise of the Japanese economy and the German economic dwarfed the rise of the Brazilian and the Indian economy in terms of their impact, what ought to have been their impact on American leadership.

As it turns out, the rise of Japan and Germany did not, in our view, at least retrospectively, impact negatively. So, I don't see how Brazil and India really even begin to compare to that.

Now, what about China? There's no question that China is not the China it was before, but when we look back on the Cold War again, we didn't have China. We had the Soviet Union. We had the Soviet Union occupying half of Europe with massive forces, with a massive nuclear force, with real global reach. I would venture to say we are still better off today, even with this rise in China as the preeminent power, than we were in that period.

And so, yes, things are shifting, and I agree with the Mauricio. These are secular shifts, by the way, which have nothing to do with happens this year. I mean, power has been shifting to Asia for decades and will continue to shift to some extent unless and until Ken's concern about China crops up.

And on this point, in 1987, Paul Kennedy wrote a very smart book about American decline and America being overstretched, and that was -- it was well supported by facts and history. And what happened? It wasn't that America changed; it's that the Soviet Union then suddenly and unexpectedly collapsed. So, it wasn't the United States in fact proved to be so much more wonderful than Paul Kennedy thought it was, it was that the other guy collapsed.

And if you had to ask me what is more likely, that the United States is in a terminal decline that we're going to be witnessing decade after decade after decade, or that China is going to run up against some challenge which may seriously shake its system, and I rely on Ken's wisdom here, I think the China challenge is probably a greater problem, and I bet the Chinese do, too.

MR. INDYK: Do you want to respond on that, Ken?

MR. LIEBERTHAL: Not really.

MR. INDYK: Let's talk about one of the other established powers, the Russians, and how they're viewing this political dysfunction.

MS. HILL: Well, I mean, there's a great segue from where we were just left by Bob in the ruins of the Soviet empire and the USSR, because one of the narratives that is that's prevailing right now is indeed the Paul Kennedy rise and fall of the great powers. And the United States is not immune to this, in spite of all the evidence to the contrary.

And this is a narrative that we're hearing quite a lot now in the Russian context, and you have to ask yourselves, well, why? And it's not, of course, just the Russians; it's everybody else that we've been talking about here.

For the Russians, this is actually a very useful narrative because it just shows that it can happen to everyone, and that the collapse of the Soviet Union is, you know, Mr. Putin not just mentioning that we're parasites on the face of the global economy, but also says that the greatest tragedy of the 20th century was the collapse of the Soviet Union. And what he would like to see with the decline of the United States, everybody else's boat has somehow floated upwards. It's all Archimedes' principle. We go down, and everybody goes up.

And there's a sort of sense in this, and I don't know whether the Chinese, you know, would really buy into this, but for the Russians, they're also trying to spin the

narrative that here we are 20 years out since the collapse of the Soviet Union, and the mighty United States, the other Super Power, is in the same position -- overextended militarily, massively in debt. Its alliances variously in tatters, NATO looking quite tarnished, lots of unsuccessful wars and all kinds of places the Soviets were there before. We're basically almost 20 years since the Soviet withdrawal from Afghanistan, and where is the United States? Talking about withdrawal from Afghanistan.

So, basically for Russia, this is a great what goes around comes around. Now, why is this useful? Because as was mentioned, they're about to go into elections in 2012, and where Ken was talking very eloquently about this enormous leadership transition in Asia, about 70 percent of the Chinese party and then all of the other leadership transitions. So, I think we can pretty expect there's not going to be much of a leadership transition in Russia.

We've got very limited options for who is going to merge out of this. Even if it's a shifting various chairs, we've still got the same group of people who, for the last 10 years, certainly being in the uppermost of the Russian politics. So, they've got to make this exciting, and it's also a great deflection away from your own problems at home if you can blame basically other people for economic issues. The Russian economic engine is also slowing down. There's a great deal of concern that they won't be able to actually withstand a double dip recession because they spent so heavily the first time around. If the United States pulls Europe down, there goes gas demand again, and that goes obviously directly where it hurts the most in terms of the Russian economy, because the economy is still very much fueled by oil and gas revenues.

And in terms of the political dysfunction, this is a great way of deflecting criticism about the fact that there's not really going to be a leadership per transition in Russia, and that Russia has all of these democratic deficits that we're so familiar with. So,

it's a great way to say, well, you want democracy? Look at this dysfunction.

And just as the United States has lost its Triple A rating, the somehow diminishing of Obama's presidency, a presidency based on consensus, on negotiation, on bipartisanship, of basically multilateralism, this also weakens, to some degree, Medvedev and his presidency in Russia. It goes, again, back to the whole call that Ken was pointing out, the Chinese side and the need for a strong hand, of really more assertive leadership, keeping the state together.

And of course that plays very well into the politics in Russia right now about the question that if Mr. Putin does come back as president, well then, of course this will be justified because look at the chaos in Europe and the United States, the political dysfunction. We can't possibly want to have a repetition of that in straitened economic times. Great constraints, great crisis, needs strong leadership. So, this is an extremely helpful narrative for Russian politics at this particular point, even if over the longer term it doesn't really help Russia economically. And it certainly doesn't correspond really to the reality in Moscow as well. They pretty much are also on the same page as where the Chinese are about where the United States stands.

MR. LIEBERTHAL: Can I come back in on China, the issues Bob raised?

MR. INDYK: Yeah, but as you do that, is Chinese leadership changeover going to be affected in the same way? Are they going to be able to make the same argument -- look at the dysfunctionality? Is this going to justify our system? Does that play at all in terms of --?

MR. LIEBERTHAL: They have made -- they've made fundamentally that argument in two different guises over the last 30 years. The first guise was when the Soviet Union collapsed; they said effectively, folks, look at the chaos over there. Look at the decline in the standard of living, increase in mortality, decline in national power, et cetera, et

cetera. If you want to change our system, that's what it's going to become. That's what the future looks like. And what we can offer instead is very rapid economic growth, social stability, et cetera, et cetera.

More recently, they point to the United States and say effectively, you know, democracy isn't -- multi party -- they say they're democratic in their own peculiar fashion, but a multiparty kind of free swinging democracy like we have produces chaos. It's not a way to husband resources and get from here to there. So, for at least until they become a fully middle income country, it's worth keeping in mind Chinese per capita of GDP still puts it below number 100 in the world.

China is still a developing country. It's not a middle income country. And until they become a middle income country, they say effectively, we need the capacity to mobilize and focus resources in order to do the tough things necessary to manage urbanization and the massive changes in society, let's say, without producing social breakdown. And they point to the U.S. as kind of now, not a completely negative example, but, let's face it, folks, democracy doesn't get a lot done when you face critical issues.

I want to, if I can, though, come back to a little bit of Bob's framework here, because -- and I know you'll correct me if I'm mischaracterizing you, Bob.

You presented this in your final remarks as kind, well, so is the U.S. going to be up and China down, or China up and the U.S. down, right? I mean, is China going to trip up or is the U.S. going to recover?

MR. KAGAN: Well, I didn't quite put it that way, but that's okay. You can rebut it anyway.

MR. LIEBERTHAL: Anyway, and there was an implicit comparison to the Soviet Union and what happened with the Soviet Union. And, you know, I think thinking back in terms of the U.S. and the Soviet Union, free world and Soviet bloc, during the Cold

War, is fundamentally to miss what's going on now. China's advances in recent decades have been on the basis of integrating into the global economy, including integrating into our economy. We are in China in a major way, and they are in the U.S. in a major way, in ways that you couldn't have dreamed of with the Soviet Union.

Their increasing stature in the world has not been based upon their military power. If anything, their military advances have decreased their stature in the world as other folks worry about them and see that as, why are you going in that direction, you know. Totally different from the way the Soviet Union managed its situation.

I would argue, and this goes back to some of the issues Mauricio has raised in the beginning. We have an enormous interest in China's success. China's success can bring and does already bring enormous benefit and enormous opportunity. Our worry about China's success will be that if they succeed and they are able to shape international practice in ways that are profoundly illiberal, that are really revisionist of the current system that works against our interests and, I would argue, against the interests of most folks we care about, right?

So, what we want is a successful China that fits into a global system that continues to operate at least broadly along the principles of the system that was set up after World War II. But that system is at risk if the U.S. isn't powerful enough to really support it, if we aren't successful ourselves. So, our ideal outcome is U.S. success and Chinese success, and Chinese respect power and respect dynamism. That will produce on balance the best overall outcome.

Dramatic Chinese failure is frankly going to impose costs on all of us that are huge. Dramatic U.S. failure leaves open the possibility of a global system increasingly dominated by Chinese style of values. Let me tell you, I don't know about you, but that's not a system I'm going to be very comfortable in.

So, I think we need to think in terms of those, you know, that varying mix and not so much in terms of kind of Cold War --

MR. KAGAN: I was really -- I'm glad I got you set off on that, but, I mean, I agree with what you're saying. I was just saying if you --

MR. LIEBERTHAL: You keep saying that. Don't --

MR. KAGAN: If you were doing a predictive -- I know. Your visa to China is in trouble right now. I was just making a predictive question. I was answering a predictive question about whether the United States necessarily --

MR. INDYK: Before we go to the audience for questions, Mauricio, just tell us about Western Hemisphere reactions to all of this.

MR. CARDENAS: I already lost the argument. I mean, Brazil is not going to replace the U.S.

But honestly I think -- let me insist on this point. I think that if we think of the debt as the issue, the debt is going from 70 percent of GDP to 80 percent of GDP in the next four years just by pure inertia. If we're saying, well, the U.S. has the supremacy, there is no contender, the next one in this marathon is miles behind, we can enjoy the summer, we can wait until the bipartisan commission comes in November with a proposal, and if nothing comes out of that, we'll just wait until after the elections.

I think that sense of complacency is misplaced, and it's misplaced for one reason, because the damage is not empowered by the competitors or the contenders. The damage is the U.S. economy. As you said, I think the U.S. federal government is trying to do too many things at the same time. It's trying to do the welfare state. It's trying to reignite the economy. It's trying to invest in infrastructure. It's providing -- it's becoming the provider of global public goods of last resort, in many cases, the only resort.

And with all those burdens, and with the levels of taxation -- the current

levels of taxation, I think that's not sustainable. So, at the end of the day, that hurts the consumer. That hurts the investor, and that hurts the economy as a whole.

So, I think most evasion for doing something is not necessarily because of losing the supremacy. It is because of the weakening of the economy that in turn fuels the problem of losing the leadership.

By the way, back to Brazil. You know, what countries are thinking, well, let's find ways of mitigating the costs associated with a weakened U.S. economy, or a weakened U.S. dollar. Let's find other reserve currencies. Let's promote the dollar between emerging countries. Let's figure out a way of offsetting -- recessioning the U.S. if it happens, a second recession, with more stimulus. This is the dialogue that is taking place. It is not about basically overcoming the U.S. and becoming the world's leader. It's about figuring out ways to handle the changes in circumstances, which basically mean a change in the role of the U.S. in the global economy.

MR. INDYK: Good. Okay. Let's go to your questions. I'd ask you, first of all, to wait for the microphone, secondly, to identify yourself, and, thirdly, to ask a question. So, who wants to go first? Over here at the front.

MR. NIXON: Thank you. Adam Nixon with Middle East Broadcasting Alhurra TV. I wanted to first of all follow on your original comments. I wanted to see if I could offer a diagnosis as a political hypochondria or maybe congressional munch house and syndrome by proxy. Either we're sick or they're sick, one or the other.

But anyway, Tom, you talked about the debt discussion being mostly about tax rates and entitlements. But what about foreign policy spending? In particular, we spend trillions of dollars on the War on Terror, Iraq, Afghanistan. We fund about 70 percent, I believe, of NATO operations, troops in Asia, now Libya. And we're about to spend the next month looking backwards to that 10 years' worth of foreign policy expenses.

What do you see happening in the next 10 years to those expenses? Are they necessarily going to have to be cut as part of this debate, or is the status quo maintained because most of the money, as you say, would come from entitlements and tax rates?

MR. MANN: Though almost certainly others here can speak with more authority than me, my own view is that some expenses will inevitably be cut back. The chances of us engaging militarily again of the scope of Iraq and Afghanistan without a clearer notion of how we come out of it and how we finance it is pretty farfetched. I think out of this could come some very healthy adjustments in our whole sort of defense strategy and expenditures. And that would be a good thing.

What I do see, though, is the easiest cuts are on the non-defense foreign policy side of the budget. I see those being cut back. Areas initiated by President Bush where we really have some leverage to do some very constructive things will be cut back harshly. There are a whole host of kind of irrational cuts that are being made right now because those are the easiest places to achieve it. So, I think there are some real adjustments to be had.

The entire sort of budget will be scrutinized and scrubbed, but all I was saying is the bottom line is there -- if you're concerned about deficits and debt, the answer is taxes, health care costs, and growth. Everything else ends up around there as far as concern about our financial wellbeing. But the other pieces that get cut here could do real damage.

MR. INDYK: Bob, do you want to come in on this in terms of following up foreign assistance at a time when you can see in the Arab world it could be critically important in terms of democratic transitions there. Isn't there a danger in all of this that our levels of influence, or our soft power, is going to be seriously affected?

MR. KAGAN: Well, I mean, it's hard to measure exactly how much is going to be affected. But it's foolish. These are trivial amounts of money that we're talking about. They are the easiest low hanging fruit for Congress to go after because they have no constituency.

And, you know, unfortunately I actually believe that the President has not helped the case. When the President says in his recent speech on Afghanistan that we need to focus on nation building at home, that kind of gives people even more license than they might otherwise have to say, yeah, let's by all means.

And unfortunately, it always rests on the Administration in power to make the big case for why these expenditures are necessary. Congress is never going to make that argument, and the opposition party, whether it's Democrats or Republicans, rarely makes that argument. So, I mean, if the Administration really cares about these cuts, they're going to have to fight for them.

MR. INDYK: Peter.

MR. CHETLEY: Thank you. Pete Chetley from Brookings. I like Bob's optimism, but let me throw out a few other thoughts that might weaken the U.S. role overseas, and then have you shoot them down as to why they're --

MR. KAGAN: It's my job. I'm up here alone on this.

MR. CHETLEY: The first is a declining public confidence in the ability of the federal government to do the right thing. In the 50s and 60s, if there was a problem, it was easy. The public believed, give it to the federal government; they'll solve it. That confidence is no longer there. Therefore, the likelihood of the U.S. public urging the federal government to be active overseas isn't what it used to be.

Second, our alliances aren't what they used to be. I mean, NATO was really powerful -- U.S., Japan, et cetera, 60s, 70s, 80s. It's not there now.

Thirdly, we solved a lot of global problems in the past by just throwing resources at them. Massive amounts of money, massive delegations, overwhelming other countries with just our manpower and people. I don't see us having the kind of resources that we had in the past to throw at international problems.

And the last one, and I'm not sure about this, declining public interest in international affairs. The focus all now is domestic. It's jobs. It could be transient. Perry, keep the government small, make it a Texas model. I don't see growing American public interests in adventures overseas, especially in the wake of Afghanistan and Iraq.

So, my question is, do these four points lead further arguments for a less influential American presence abroad?

MR. KAGAN: The one that is most persuasive is constrained resources. If you have constrained resources, then in a mechanical sense, you have less ability to wield influence on the world stage.

Now, again, having spent a lot of time looking back on the Cold War and other periods in American history, we can tremendously overstate the degree to which we are able to snap our fingers and get whatever we want, no matter how much money we threw at things. We threw a lot of money at Vietnam over 10 years. And by the way, did some real damage to our own economy and the global economy as a result. So, you can overstate this.

As far as the public is concerned, I have been hearing -- you knew I was going to say this -- I've been hearing every five years or less that the public has had it with foreign policy for the last 25 years. The American people are a very interesting, not to say peculiar, people. They always say pretty much that they don't care about foreign policy. They never urge administrations to go off on foreign adventures. It's usually political leadership, whether it's in Congress or more likely in the White House. It's events that

American people don't think they're going to care about and then wind up do caring about. And I would be happy to wager with anybody in this room, including Tom Mann, that some time, if averages hold, sometime in the next five years, the United States will engage in another moderately sized military action, because --

MR. MANN: Why moderately?

MR. KAGAN: I don't know how -- it's not World War II, and it's not 500,000 troops. But we have -- I've repeated this ad nauseum. You've heard this 100 times; forgive me. We have on average since 1989 engaged in a significant military action overseas roughly once every two years. Now, I believe that we will be in a post-Afghanistan, post-Iraq delay, which will probably extend that two or three more years. But it is astonishing to me.

If you had said to me at the beginning of the Obama term that, in fact, there's this whole joke. They told me if I voted for John McCain, we'd invade another Arab country, and did vote for John McCain; that's exactly what happened. If you had told me that under Barack Obama we would yet again be engaged in a military intervention, however limited, in a place like Libya, I would've said -- I would've said that was odd.

But don't underestimate the American people's ability to pay no attention to the world and then suddenly support an intervention someplace that they haven't even given any thought to.

MR. INDYK: Okay. Yes, please.

ABIBA: I'm Abiba from American University. I have a question to Ken and Bob. I think China rarely has aggressive foreign policy aiming to increase its army power. So, why does the world worry about China, to use its economic power to strengthen its diplomatic and army power that wants America to do that, as you mentioned before? Thank you.

MR. INDYK: Ken?

MR. KAGAN: I'm sorry, go ahead.

MR. LIEBERTHAL: No, I talked last.

MR. KAGAN: Unless you want to say something I can agree with again. I may agree with you.

MR. LIEBERTHAL: As you can tell, Bob and I enjoy agreeing with each other. As I understand your question, why is the world worried that China's military power is being strengthened on the basis of its stronger economy given that China doesn't have aggressive intent? Is that right?

MR. KAGAN: As opposed to their acceptance and desire for America to have a lot of military power. I think that was the other part of that, yeah.

MR. LIEBERTHAL: Let me speak to the Chinese side, and you'll speak to the acceptance of the American side.

MR. KAGAN: Okay.

MR. LIEBERTHAL: I think on the Chinese side, there are several concerns. One is that China certainly asserts constantly that it has no aggressive intent. But its plans for development of its own military are very non-transparent. It has become more transparent over the years, but it is by far the least transparent military throughout Asia, and, frankly, or the rest of the developed world.

Secondly, the kinds of things that Chinese military is investing in in some cases are really quite worrisome. When you look at anti-satellite weapons, and they tested an anti-satellite missile, when you look at carrier killing missiles, when you look at global surveillance capabilities, and that kind of thing, you know, that goes beyond Taiwan. It goes beyond the area right around China.

And China, on the one hand, says it has no kind of global military ambitions, but on the other hand we keep seeing China develop capabilities at a fairly rapid

that in fact can lay the groundwork for power projection well beyond its own periphery.

And I think that disconnect worries military people who look at China and say, essentially, we need to understand more of what your plans are, what your thinking is about the different regions of the world that you're engaged in, how your military development relates to specific goals. You can find a lot of that information about the U.S. military. You can generally find what we're paying for weapons systems, what we're going to develop, and what the limits will be, and why we're doing it and all that. You can't do that with China.

If you look at China's military white paper, which they issue periodically, each year has gotten a little more detailed than in the past, it still, for example, doesn't break down the world by region and indicate its interest in any particular regions. Now, you know the military thinks in those terms, but there's nothing in their white paper that addresses things with that level of specificity. And so, I think that worries folks.

And then finally, frankly, the fact that China is not a democratic system worries folks, because there is a sense in the United States, and frankly I think around much of the world, that if you've got a non-democratic system, it doesn't have the kinds of constraints that democratic systems are kind of self-imposed by the nature of the decision making.

Historians may or may not agree fully with that, but I'm just saying in terms of popular perception, there is a worry about systems that are authoritarian systems that are getting much more powerful, developing their militaries fairly rapidly, and don't get into detail and explain why they're doing what they're doing.

MR. INDYK: Of course, if China is listening to this discussion, would say that the United States is the world's leading democracy isn't very constrained, according to Bob's statistics.

MR. LIEBERTHAL: Well, as I said, historians may argue. But the question I was dealing with, the part of the question of why do people worry about what China is doing.

MR. INDYK: I just want to go to Peter's point about NATO and ask you, Fiona and Bob, maybe to respond about this perception that NATO is incapable of sustaining the kind of military role that it's played in the past.

MS. HILL: Well, Bob, because you also need to the other half of the acceptance question.

MR. KAGAN: Do you want me to respond to the other half?

MR. INDYK: Let's just talk a little bit about NATO first of all and then go to another question.

MR. KAGAN: Well, on NATO, we made a mistake, I think, in believing that NATO could be something other than it was during the Cold War. And what it was during the Cold War was a static force in place. The role of NATO during the Cold War was the role of French/German/British forces was to stay there and not get beaten too quickly by the Soviets. When the Cold War was over, and I say this in all difficulty for when I go home and talk to my wife, who is a NATO ambassador, who believed in this, and we decided that NATO had to be out of area or out of business, had to start becoming a global player. We stretched European capabilities and desires beyond where they wanted -- where they reasonably could go.

And so, when we compare NATO to the past, it's not that NATO was worse than it was in the past. It's that we're asking it to do more, that it really is not a capable nor desirous of doing the European elements of that. Then I think that has unfortunately created tensions in the alliance that were unnecessary.

For me, the goal of NATO should be to continue -- the goal of NATO and

the EU should be to continue the goal of creating a Europe whole and free; should focus on Europe and the near reaches of Europe. It should focus on things around the Mediterranean, things in the Middle East to some extent, and things – on Russia's near broad and their euro neighborhood. But to talk about NATO as a global power, I think, is a mistake.

MR. INDYK: Fiona?

MS. HILL: Well, shockingly I agree with Bob now. But I think Bob is absolutely right on asking too much of the European Union allies. And, of course, NATO is not just the European allies. There's the Canadians as well in there, and there's lot of partners who also step up to the plate in a lot of these out of area operations.

And I think what we've seen over the last few years in particular, especially with Afghanistan, is that it's been the non-European allies that Canadians and the Australians and many others, the Georgians for that matter -- have aspirations for NATO, but are certainly not members, who have actually stepped up when the U.S. has requested it.

And probably the biggest challenge in this is Germany. One of the big debates, and not so long ago, in fact, we had the debate here between Bob and a very famous German, Daniel Kombandit, who is also a Frenchman -- he wears many European guises -- about this very point about European security.

I think what came out of that debate and some subsequent commentary is that we forget in the United States how traumatized Europe has been from its not too distant past, of World War II. And there's still a lot of issues to be worked through in the European context about the use of military force. And the fact that for the United States, the military is a point of pride, it's part of the national patriotic narrative, that's not the case across Europe. There was a great tarnishing of the role of the military because of all of the atrocities of World War II. I mean, if you thought back --

MR. KAGAN: World War I.

MS. HILL: Well, in World War I as well. We're still dealing with the consequences of this. Germany, in many respects, we are asking a lot of questions about why doesn't Germany step up right now in terms of security, or even because it's not just China. Where is Germany with its great economic development here when we have a time of crisis?

In many respects, Germany is still a traumatized country. It's still dealing with the effects of what Germany did, of what the Germany did during World War II, and it's still a major element of political debate that hasn't been resolved. And then you better translate into a European wide stage, and you have consensus about where Europe should head in security, apart from preventing the outbreaks of conflict within the European space.

So, I think Bob is absolutely right on that. And it's something that in the United States we have to have a better conception of when we start thinking about our own security and, in fact, where are we going to go maybe in these next two to five years if something like this pops up again.

MR. INDYK: Well, I would just add, nothing succeeds like success. And if Gadhafi is in fact overthrown or leaves Tripoli, as he may well do in the coming weeks, it will be seen as a victory for NATO and people will have to reassess again.

One question here. The lady, yes.

MS. HAYDEN: I'm Nancy Hayden from Sandia National Laboratories and also the University of Maryland Public Policy School.

It's been interesting to listen to this, but what I'm really sense is lacking is a discussion of the Arab spring and the U.S./Israeli policies. Those have been such big drivers of foreign policy in the past.

And I would just -- I don't have any particular agenda or argument to make,

but I'd really like to hear comments on our dysfunctional political system and our economic decision in terms of where does that leave us with respect to influence on Israel and the developments in the Middle East.

MR. INDYK: I guess that's for me. Here I was trying to escape the Middle East, foreign policy in general.

MR. KAGAN: It always comes back.

MR. INDYK: I actually do think that the dysfunction that we've been talking about here affects our ability to be effective in the context of the dramatic changes that are sweeping across the region.

It's not just the dysfunction and the debt and the feeling that we've been overextended, and we can't afford to get involved in another war that leads to another military intervention. It's the fact that we've really shot our wad in Iraq and Afghanistan. And that means that we're reluctant in particular to take a position that might imply obligations our part to do something when it comes not to Libya, but to Syria, because Libya is a side show. Libya is like Las Vegas. What happens in Libya basically stays in Libya. But what happens in Syria will have profound implications for the broader Arab world and indeed for Arab/Israeli relations, and in particular, for Iran's bid for dominance in the region, which could suffer a decisive blow if the Assad regime is in effect overthrown.

Now, it may happen anyway, but the fact that we are hesitating to come out clearly and forcefully in support of the Syrian opposition when we didn't hesitate to do it in the case of Egypt -- staunch ally for 30 years -- Mubarak -- or in the case of Libya, where we didn't have much interest in the outcome -- is, I think, I reflection of this constraint, sort of preoccupation, lack of ability to get engaged.

I mean, it's ironic that it's the Turks -- those old Ottomans -- who are now -- yesterday starting to threaten the Syrians with steps, whatever that means. But we don't

have that credibility at the moment because we're not prepared to move effectively. And the Russians, who are not willing to allow UN Security Council against this, I think would take a different posture if we were much more assertive than we are. We're getting there, but we're getting there very slowly, and a lot of people are dying in the process. And I think that's a consequence of the situation we face.

Now, you also asked about the Arab/Israeli front. I mean, there I think that we suffer far more from, difficult as it is for me to say it, a failed theory of the case. We went about it trying to resume the negotiations and resolve the Israeli/Palestinian conflict in the wrong way.

Now, the degree of difficulty was great given the dysfunctionality on the Israel side and on the Palestinian side. But nevertheless, we didn't help. And you can put that partly down to political constraints, but I think it has a lot more to do with the way that we went about it. And we don't have time to go into the details.

But I think that the failure to achieve just a limited goal of getting the resumption of negotiations going on -- I mean, even George Bush, who didn't care about solving the Palestinian problem, had final status negotiations in his last year in office. But President Obama that swore that from day one he was going to make this a priority, in two and a half years was only able to get a fitful one month of direct negotiations, just the direct negotiations, something that's been going on for the last 15 years. And that affects our credibility.

If we can't be seen to be effective in trying to resolve the Palestinian problem, which is a hot button issue in the Arab world, then we're badly positioned to play an influential role in these dramatic developments that are going on now. So, our credibility has been tarnished there.

I'm afraid that we're out of time, but I want to thank all the panelists and

thank you, the audience, for a great discussion.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

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