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Good afternoon, Mr. Chairman, Mr. Ranking Member, and Members of the subcommittee. My name is Kevin L. Kearns and I am the President of the U.S. Business and Industry Council. On behalf of our 1,900 member companies, I thank you for the opportunity to testify before the subcommittee on "The Foreign Policy Implications of U.S. Efforts to Address the International Financial Crisis." No set of issues will have more impact on America's future security and prosperity, and I believe that our organization has a uniquely valuable perspective to offer.

As a business organization, USBIC has since its founding in 1933 spoken out on a wide range of economic issues. But the Council has always been deeply concerned about U.S. national security. This focus reflects the nature of our membership, which is mainly comprised of small and medium-sized manufacturers with deep roots in their communities, strongly held Main Street values, and a fundamental awareness that the country's safety depends heavily on a strong productive, innovation, and wealth-creating industrial base at home. Manufacturing has long dominated this base quantitatively, and it will remain dominant for the foreseeable future.

As President Obama and so many others have said, the economic crisis represents a genuine crossroads for our country. Washington's responses will greatly determine whether America will emerge at least as safe and prosperous as it has been since the end of World War II, or much weaker, much poorer, much less politically independent, and much less influential.

In our opinion, the Obama administration's responses, like those of the Clinton and Bush administrations before it, are making that bleaker future much more likely for the United States. In the process, they are also undermining prospects for acceptable levels of global security and prosperity.

The main problem stems from the administration's refusal, like that of its predecessors, to rethink fundamental and longstanding U.S. strategies that recent circumstances have made dangerously obsolete – essentially that we can buy friends, allies, and influence around. These strategies – carried out in varying versions, and with numerous lapses since the end of World War II – achieved some vital successes in the early postwar decades. But they laid the groundwork for today's crisis -- as we paid off various allies for their cooperation with various chunks of our technology and industrial base and now find ourselves unable to pay our way in the world.

The current Great Recession was delayed mainly because the nation has been living off the fruits of a much different strategy than was pursued for most of our previous history. We created wealth at home, through manufacturing, agriculture and resource extraction, and were the world's largest creditor nation. When we borrowed abroad, we did so not to consume the latest Japanese automobiles but to build productive capacity. We could then pay off those loans when the productive capacity came on line. Ironically, this older strategy not only has major attractions as a full-blown alternative to today's borrow and consume approach but also is critical to any remaining chances of salvaging our economy.

The essence of America's current economic and security strategies has been voiced repeatedly by President Obama since his inauguration, and by all of his post-World War II predecessors on countless occasions. It holds that the world's security and prosperity are indivisible – that neither the United States nor any other country can be acceptably safe and secure unless every other country is as well. Therefore, although each of the world's governments can and should take certain steps to shore up their own defenses and economies, these measures should all be consistent with broader efforts to tackle international problems cooperatively – including the creation of new systems and institutions of cooperation, and the strengthening of existing ones that retain value.

This approach to international policy – which has been labeled the multilateral approach – holds that efforts to "go it alone" are both impossible and dangerous. Indeed, if too many countries, and especially too many major countries, pursue such policies, the world is likely to repeat disastrous mistakes of previous eras, especially the 1930s.

In the security sphere, a strong belief in multilateralism has led the Obama administration to concentrate on repairing ostensibly fraying U.S. security alliances and assuring international audiences that the United States now rejects the alleged unilateralism of the Bush years. The President has frequently promised to restore the prominent role supposedly played in American foreign policymaking by international institutions and global public opinion.

It is true that the President has emphasized to America's NATO partners in particular that the alliance must become more of a two-way street, and that more European military involvement in Afghanistan is especially important. He has also encouraged other prospective American partners – notably in the Middle East – to assume greater responsibilities for regional security. And he has signaled that such changes would help the United States to accommodate the avowed desire of these countries for a lower local U.S. profile.

Yet regarding NATO in particular, the President has never mentioned any penalties or adverse consequences for ignoring his entreaties. And he has made clear that his bottom line is preserving harmony among friends. The President, however, has also declared that he recognizes America's preeminence in existing arrangements, and its consequent interests in shouldering a corresponding share of the collective load. Thus his total message has contained many unmistakable elements of ambiguity.

In economics, multilateralism to President Obama means exactly what it has meant to his predecessors for decades – a firm commitment to open global goods and services markets, unfettered global capital flows, and strong mechanisms for resolving disputes. The President's agreement at the latest G-20 summit with European calls for more effective international regulation of financial activity represents a logical, crisis-borne extension of this position.

At the summit, the President did indeed state that international economic imbalances need to be reduced. More specifically, he insisted that American consumption could no longer be relied on to fuel global recovery, and that greater stimulus measures are needed in other major economies. At the same time, President Obama also asserted American leadership responsibilities in resolving the crisis globally, in part because he believes that failures of U.S. financial regulatory policies deserve considerable blame for its outbreak, and in part because of America's status as the world's largest economy.

As a result, ambivalence has characterized the administration's economic message as well. Perhaps this helps to explain why the European countries in particular balked at increasing their stimulus spending. And the President presented no ideas for overcoming their obstinacy.

If maintaining the global status quo on the security and economic fronts was still consistent with U.S. interests, the Obama policies would make sense. They might even arguably reflect the administration's portrayal of them – the entire world's best hope of avoiding 1930s-style calamities.

Yet the inadequacy – and indeed dangers – of both facets of the status quo could not be more obvious. In fact, most of the rest of the administration's policies signal strong agreement with this proposition. From fiscal and monetary policy to housing policy to financial regulatory policy to health care and energy policy to the bedrock relationships between government and business, the administration has either endorsed the seismic changes begun by its predecessor, expanded them, or proposed vastly bolder departures. Only in international security and economic policy are existing strategies and even tactics defended. Indeed, they are defended vigorously.

Unfortunately, these are the two areas where big change is needed the most, and the most urgently. These are also two areas where change must go hand in hand. America's material wherewithal profoundly affects the viability of its security goals, and its security goals have just as profoundly affected its policies for creating and maintaining that wherewithal. Even keeping U.S. policies in these two spheres on a viable multilateral course will require a thoroughgoing and mutually reenforcing transformation of American tactics on both fronts. Specifically, it will require adopting key techniques and even objectives of unilateralism.

The related weaknesses of current American international security and economic policy fall into two categories. First, as suggested above, they are incapable by themselves of producing significant progress toward meaningful multilateral cooperation to address major problems and threats. Second, and more important, they are undermining America's security and prosperity itself, and thus its ability to carry out any sensible international strategy successfully.

The Obama administration's multilateral failures stems from widely held misconceptions about the relationship between unilateralism and multilateralism themselves, and about the relationships between power and diplomacy. Distinctive as they are in theory, none of these concepts exists in isolation in the realm of practice. And they are anything but mutually exclusive. Like all strategies and tactics, they have various strengths and weaknesses, and their effectiveness depends crucially on circumstances – which in the international sphere are not only exceedingly complex and diverse, but highly dynamic.

Thus it should not be surprising that unilateralist means are regularly needed to achieve multilateral ends. Nor should it be surprising that effective diplomacy often requires the use of power, and vice versa. Yet judging from much of the debate recently surrounding American national security and international economic policies, these observations are at best muddled and at worst distasteful.

Power and unilateralism are in fact vital instruments of any successful multilateral diplomacy. Their role is usually inescapable because of the intrinsic nature of international politics and the current system of states. These dominant actors on the world scene possess dramatically differing characteristics – in terms of size, location, and other physical features, resource endowment, economic systems, cultural heritages, and historical experiences. It is inevitable, therefore, that on a regular basis, these differences will produce significantly differing definitions of national interests and objectives. In other words, international consensus on myriad security and economic issues does not exist.

The differing characteristics of states will even produce differing definitions of national interest even when problems and threats are transnational in nature, and therefore presumably shared. For their intrinsic differences mean that various states will tend to be affected in different ways and to different degrees by these challenges. These differential effects will often generate differing judgments on the most beneficial responses, and the most sensible compromises and sacrifices to accept.

Global climate change is one key example. In part because they stand at different stages of economic development, the United States and many developing countries perceive significantly different costs and benefits to various proposed climate change regulatory regimes and obligations. And in part because the energy intensiveness of their economies differs (because of different sizes and other geographical features), a divide exists between the United States and many other high-income countries as well.

Global terrorism is another key example. As many analysts have suggested, it is entirely possible that European and American responses differ significantly because Europe and America find themselves in significantly different situations vis-a-vis the region that is the source of most major terrorism – the Middle East. Europe is much closer. A corresponding sense of vulnerability might be responsible for Europe's traditionally strong emphasis on addressing the problem by resolving the Arab-Israeli conflict, and its relative un-interest in building stronger border controls and other barriers to travel. The United States is located halfway around the world from the Middle East; therefore, fence-building seems more promising to more Americans.

In some cases, such gaps can be narrowed and even eliminated with superior argumentation or compelling rhetoric. But in many other cases, the only possibilities for success are offered by the use of power – to compel, to bribe, or simply to create realities and faits accompli to which others must adapt. Power, moreover, can also be used to threaten credibly the withholding of cooperation – to underscore assertions that a country has other and better options than accepting unappealing compromises and lower common denominators. That is to say, power can also be used to threaten credibly the decision to "go it alone."

And this is where for decades, American economic policies in particular have been sorely deficient. They have seriously neglected the imperative of maintaining the relative strength needed to wield power effectively on behalf of multilateral diplomacy. Combined with America's traditional willingness – and often declared preference – to make outsized provisions of public security and economic goods, the results have been minimal progress towards tackling security and economic challenges cooperatively; and endemic free-riding by U.S. treaty allies in the security sphere, and by virtually all U.S. trade partners in the economic sphere.

In security affairs, these dismal results have in turn led to dangerous U.S. military over-extension, the needless exposure of the United States to certain security threats, and a failure by Washington to explore adequately America's capability to carry out less ambitious, but less costly and less dangerous policies in selected cases. In economic affairs, the equally dismal results have produced an American acceptance of highly unequal trade arrangements that have stunted the U.S. economy's productive base; consequently addicted the nation to financing prosperity with debt, not with earnings; created unprecedentedly and unsustainable lopsided global economic flows and imbalances; and led directly to the current global economic crisis.

More recently, the nation's addiction to debt has produced a new danger – the loss of economic and political independence to foreign creditors. On the one hand, the optimists so far have been right, in that the nation's foreign creditors have shown few significant signs of even controlling their purchases of U.S. government debt, in particular, despite the virtual disappearance of yields. On the other hand, it surely did not escape the notice of China, in particular, that during the Democratic primaries, both candidate Obama and candidate Clinton spoke of the new obstacles to asserting America's interests vis-a-vis Beijing stemming from China's role as "America's banker." Growing foreign purchases of non-financial U.S. assets can pose similar dangers, especially when they are carried out by government- controlled sovereign wealth funds.

Another potential danger worth mentioning is the U.S. military's growing dependence on foreign-made parts and components for weapons systems and other defense-related goods. For years, under both Democratic and Republican presidents alike, the Defense Department has resisted Congressional and other entreaties to produce serious studies of the situation. Yet research by the U.S. Business and Industry Council has conclusively shown that high and rising levels of import penetration exist in literally dozens of capital- and technology-intensive domestic industries. Given the increasingly blurry line between civilian and defense-specific manufactures, it is inconceivable that the nation's defense production base has substantially escaped such import penetration.

The Obama administration has displayed virtually no interest in acknowledging these deficiencies, much less realistically addressing them. Achieving greater energy independence is the only exception. Otherwise, on the level of specific policies, President Obama has strongly indicated a willingness to pursue the types of trade agreements sought by his predecessors since Mexico was added to the U.S.-Canada Free Trade Agreement to create the North American Free

Trade Agreement. Because the targets overwhelmingly have been low-income developing countries following export-led growth strategies, these deals have greatly boosted the U.S. trade deficit, suppressed growth and job creation in the heavily traded manufacturing sector, and accelerated the U.S. economy's shift from healthy income-generated prosperity to artificial debt-generated prosperity. In the process, they contributed decisively to the global imbalances that sparked the current crisis. Because the foreign markets at stake have been so relatively meager, and the results so lopsided, it is not even accurate to call these deals trade agreements – as "trade" implies a proportionate and sustainable form of exchange. Instead, these deals have mainly be outsourcing agreements, aimed mainly at encouraging large multinational companies to send production overseas to very low-cost, regulation-free production bases, keep the U.S. market wide open, and supply it from abroad

The President has also refused to act decisively against currency manipulation by China and other trading powers, thereby missing a huge opportunity to reduce these global imbalances. More generally, he and his aides have promised to place new emphasis on enforcing the terms of existing trade treaties and free market trade norms, but seem determined to rely on multilateral and unilateral tools that are proven failures.

In addition, President Obama has strived to limit the effectiveness of Buy-American provisions for government procurement added by Congress to his stimulus bill. This stance has created another big missed opportunity to reduce dangerous U.S. and global economic imbalances. Indeed, such provisions should be extended to all U.S. government procurement. Nor does the President seem to understand the importance and potential of attaching such conditions to government support for specific industries. The various auto rescue plans and emerging schemes to promote green manufacturing are two of the most obvious examples. The GM rescue plan approved by his auto task force would have even increased the share of GM production supplied by imports from low-income countries.

More broadly, with the lone and limited exception of auto industry policy, President Obama has continued the Bush policy of showering the financial sector, the housing sector, and the consumer with enormous bailouts and subsidies, but neglecting the productive sectors of the economy whose restored health is essential for generating the earnings and incomes needed to escape the current debt trap.

Consequently, President Obama's economic policies promise to make the United States more dependent on imports, consequently more dependent on foreign borrowing, and therefore more vulnerable to the inflation and bursting of a new credit bubble that could be more damaging than the one just witnessed.

On the strategic plane, as mentioned, the President has spoken of the need to reduce U.S.-centric global economic imbalances. He has also urged China specifically to help solve the problem by shifting its economy away from exporting toward consuming. But overall, his administration's messages on this score have been mixed at best, and therefore ineffective. Just before the April G-20 summit, National Economic Council chief Lawrence Summers told the Financial Times that, due to the global crisis, the China rebalancing agenda needed to be put on hold in favor of promoting more global stimulus spending from every possible source. And on his recently completed first trip to Beijing, Treasury Secretary Geithners' highest priority clearly was convincing China to keep buying U.S. debt and thus propping up U.S. consumption levels – not halting currency manipulation and other predatory trade practices, and eliminating trade barriers in order to rebalance U.S. and global accounts.

Similarly, the administration seems unaware that even much greater stimulus spending by all the world's major economies will not resolve the crisis unless accompanies by major structural changes and, in particular, ka shift away from export-led growth. As being made clear by the unfolding of China's vaunted stimulus program, when export-dependent economies simply stimulate growth, the lion's share of the resources tends to wind up strengthening the export base – which is best positioned to attract and effectively use new capital.

The Obama administration shows every sign of making the same fundamental economic mistake as all its recent predecessors – assuming that the United States has virtually no ability to pursue a significantly more unilateral economic strategy. Hence, like these predecessors, it has failed even to consider or strongly opposed steps such as those mentioned above – which are needed both to empower a viable strategy of multilateralism, and providing the country with acceptable fallback positions if that strategy ultimately fails.

Ironically, exactly the opposite is the case. Of all the world's major economies, the United States is far and away the one most capable of "going it alone" at acceptable cost and risk. Despite nearly two decades of outsourcing agreements and consistent failure to respond effectively to predatory foreign trade practices, trade still represents a much smaller share of the U.S. economy than of most major foreign economies. The United States still has ready access to investment capital; a broad, world-class productive base in numerous industries; the world's leading complex of research universities; a huge domestic market; ample resource endowments; financial markets with great potential to allocate capital efficiently (however poor their recent actual performance); and economic, social, and legal systems that have historically fostered entrepreneurship and dynamism. With the right international policies – indeed, with the kinds of international policies in place for most of U.S. history – there is every reason to think that these advantages can be maximized again.

The President owes it to the American people to explore these options. No strategy devoid of such a hedging element is worthy of the name. In addition, however, he owes it to the rest of the world. For the United States and a market that has not only been wide open but enormous has long been the goose that has laid the golden eggs for its export-obsessed trade partners. This has been especially true of low-income countries. If this market shrinks in a dramatic, disorderly way, the global results would be catastrophic. Unfortunately, in large part because American leaders have been willing to maintain the U.S. economy as the world's importer and market of last resort, even during a full-blown crisis, its trade partners have had little inclination to change their free-riding ways. Therefore, it is difficult to envision multilateral progress emerging quickly enough to contain the damage without credible U.S. unilateral action to kick-start the process.

In many ways, the crisis facing President Obama and the nation today is just as dangerous as that which faced Americans 60 years ago after the end of World War II. His responsibility – and that of the Congress – is not to pretend that their solutions can simply be transplanted into the present, but to display a willingness to jettison outmoded ideas and to start thinking outside the box.