

SIEPR

policy brief

Stanford Institute for Economic Policy Research

on the web: <http://siepr.stanford.edu>

Leadership or Crisis

By **Leon E. Panetta**

The following Policy Brief is taken from the notes of a talk given by Leon Panetta on March 14, 2014 at the SIEPR Economic Summit. The video of this talk can be seen at <http://siepr.stanford.edu/Summit2014.Videos>

Thank you for the invitation to participate in this conference and share some thoughts about the political situation in Washington, how that impacts the federal budget, and how all of this is likely to affect the future of the defense budget.

I am honored, first of all, because this area of California is my home. I was born and raised in Monterey, went to school nearby at the University of Santa Clara, represented the central coast in Congress, have many friends and colleagues here at Stanford, and currently reside at our walnut ranch in Carmel Valley. At my final press conference in Washington, I said I was returning to “deal with a different set of nuts.”

Secondly, I’m particularly honored because of my friendship and respect for George Shultz. There are a

few of us that have served in a number of capacities in Washington. I had the opportunity to work with George in a number of his past positions and have always enjoyed his support in the various roles I have served in. He has always been a role model for me — a dedicated, committed and loyal patriot who gave his all to make America a stronger and better country. I want to also pay my respect to former Secretary Condoleezza Rice, as well. She, too, is a devoted public servant who has served this nation with great skill and devotion.

Finally, I am honored to be at the Stanford Institute for Economic Policy Research — this Institute does tremendous work focusing on economic issues affecting the nation and

continued on inside...

About The Author

Leon E. Panetta is currently Chairman of the Panetta Institute. He returned to this post in February 2013, after serving as the 23rd Secretary of Defense. A Monterey native and Santa Clara University School of Law graduate, Secretary Panetta began his public service career in 1964 as a First Lieutenant in the U.S. Army, and upon discharge went to work in Washington as a legislative assistant. In 1969, he was appointed Director of the U.S. Office for Civil Rights, where he was responsible for enforcing equal education laws, and later he served as executive assistant to the mayor of New York City. He then returned to Monterey, where he practiced law until his election to the U.S. House of Representatives in 1976. From 1989 to 1993, he chaired the House Budget Committee. In 1993, Secretary Panetta left Congress to serve as Director of the Office of Management and Budget for the incoming Clinton administration. In 1994, he accepted appointment as the President’s Chief of Staff, and immediately brought order and focus to White House operations and policymaking. Upon leaving the Clinton administration in 1997, Secretary Panetta joined with his wife Sylvia to establish and co-direct the Panetta Institute for Public Policy, based at California State University, Monterey Bay. Reflecting Secretary Panetta’s own ideals and personal example, the nonpartisan, not-for-profit study center seeks to attract thoughtful individuals to lead lives of public service and prepare them for the policy challenges of the future. Returning to public service in the Obama Administration as Director of the CIA, he ran the operation that brought Osama bin Laden to justice, and, as Secretary of Defense, led the effort to develop a new defense strategy, helping bring two wars to an end, and opened up opportunities for everyone to serve in the military.



SIEPR *policy brief*

the world. This conference brings together some of the most distinguished experts to discuss many of those issues at a particularly critical time for the United States in the 21st century.

Like George, I had the opportunity during my 50 years of public service to see Washington at its best and Washington at its worst. When I first went back to Washington as a legislative assistant to Senator Tom Kuchel of California in 1966, I had the opportunity to see a Washington that was not afraid to govern. Kuchel was the minority whip under the then - minority leader Everett Dirksen. Kuchel came out of the Hiram Johnson/Earl Warren tradition of progressive Republican leadership in California. There were many like Kuchel, names that probably only George and I recognize — Javitz, Case, Aiken, Hugh Scott, Cooper, Hatfield — who were willing to work with some distinguished Democrats at the time — Humphrey, Jackson, Hart, Magnuson, Mansfield, Russell, Fullbright, Church, Ervin, Symington. Of course, they had their political differences and fought each other in the political campaigns, but on the big issues they were willing to work together. And the result was landmark legislation on civil rights, education, environment, transportation, parks, natural resources, nuclear

nonproliferation, to name some.

When I was elected to Congress in 1976, the same was true for Speaker Tip O'Neill and minority leader Bob Michel, Senators Bob Dole and George Mitchell, Howard Baker and Pat Moynihan — chairman and ranking members — willing to work together, to find consensus, to take risks essential to governing. The best way to say it is that they believed that governing was not only good for the country, it was good politics as well.

Unfortunately, I have never in 50 years seen Washington as partisan and divided as it is today. There are a lot of reasons for the gridlock — thin margins of power, redistricting, money, soundbite media — and there is enough blame to go around for both parties. But the result is that both parties, the President, and the Congress seem to have given up on the major issues facing the nation. They have given up on any long-term deficit reduction plan that requires entitlement savings and revenues. They have given up on immigration reform that is absolutely essential to providing justice and opportunity in our democracy. They have given up on essential funding for infrastructure improvements that are critical to our economy. They have given up on trade agreements that could bring

over \$600 billion to the world markets, and at least \$200 billion to our economy. On each of those critical issues, because of objections largely from the extremes of both parties, the leadership of the nation has decided that it is not worth fighting for. They choose to wait for the election and hope that maybe the opportunity to do something will come along in the future. If anything, gridlock will only get worse.

Let me give you another example of something that makes it frustrating to get anything done: the sequester... that crazy meat-ax approach designed to be so insane, so unacceptable, so harmful that it would force Congress to do the right thing on deficit reduction. They pointed a gun to their own head — or more accurately, the head of the nation — saying if the select committee failed to come up with a deficit reduction plan, sequester would go into effect; the gun would go off.

When the committee failed and the sequester was due to go into effect, I personally went to the leadership of both parties and pleaded with them that serious damage would occur, not just to the domestic budget, but to the defense readiness of the country. It would take another \$500 billion out of defense with an across-the-board cut. The result would be to “hollow



out” the force — air force squadrons would be grounded, ships not deployed on time, important maintenance delayed, essential training postponed, 800,000 furloughed — all of this seriously affecting the readiness of the nation to respond to crisis. The leadership in the Congress and the President agreed that it would be terrible for the nation. I even offered additional defense savings if needed to make a deal. They appreciated the offer, but nothing happened, as if somehow it was all inevitable.

Teddy Roosevelt once said, “When faced with a tough decision, the best thing you can do is make the right decision. The next best thing is to make the wrong decision. The worst thing you can do is to do nothing.”

I find it very difficult to understand how members elected to protect their constituents and the nation — who swear an oath to that effect — could stand by and take the country to the very edge of disaster. Indeed, they even took it over the edge with the government shutdown and sequester. This caused needless self-inflicted wounds that hurt innocent families, hurt our economy, and hurt our national security.

The Economist even went so far as to suggest that the newest panda cub ‘*Bao Bao*’ is the perfect mascot for Washington...

she costs a fortune, has no useful skills, and is always on TV’ *The Economist* said.

What I see happening in Washington is political gridlock combined with the growing sense of withdrawal from the world. It’s the result of more than 10 years of war and a recession that has people looking inward.

This is 2014 — 100 years after World War I, when nationalism, territorial claims, strategic rivalries, alliances, misjudgments, and flashpoints led to a global conflict. Today we see many of those same ingredients combined with a number of flashpoints. For all these reasons, I believe we are at a critical turning point in this country that can take one of two paths. One is of “an America in renaissance” — on the cusp of a strong economic recovery. This America is built on the tremendous creativity and innovation of a strong entrepreneurial system. It is strengthening an educated and skilled workforce and middle class, advancing opportunity for all, establishing true energy independence, expanding trade opportunities, improving our environment and our quality of life, and disciplining our budget. Renaissance America is investing in a leaner but more agile defense force that can remain the strongest and most powerful in the world, that can

sustain America’s leadership in a troubled world. The other path we’re poised to take is of “an America in decline” — a country in constant crisis. This America is politically dysfunctional, unable to govern and take steps to protect our most basic freedoms, our economy, or our national security.

The path we take will largely be determined by how we govern ourselves — or how we fail to govern ourselves — in a democracy.

I often tell students that in our democracy we govern either by leadership or crisis. If leadership is there, we can avoid or at least contain crisis. But if leadership is not there, then we will inevitably govern by crisis. We can do that, but there is price to be paid. And that is the loss of trust in our system of governing. In a democracy, trust is everything.

There is also a serious price to be paid by governing in crisis when it comes to the federal budget. Let me just give you one quote from the testimony of Doug Elmendorf, the Director of the Congressional Budget Office. “The large deficits recorded in the recent years have substantially increased federal debt, and the amount of debt relative to the size of the economy is now very high by historical standards. CBO estimated that federal debt held by the public will equal 74 percent of GDP at the end of

this year and 79 percent in 2024 (the end of the current ten-year projection period). Such large and growing federal debt could have serious negative consequences, including restraining economic growth in the long term, giving policymakers less flexibility to respond to unexpected challenges, and eventually increasing the risk of fiscal crisis.”

In other words, if nothing is done, there is a strong probability of a serious fiscal crisis, one that would be damaging to our economy and to our national defense. Look, governing is hard work. Nobody said it was easy. You have to deal with people you may not like. You have to fight for every vote. Governing is not a “pretty please” process. As a member of Congress and Chair of the Budget Committee, I participated in every major budget summit since the Reagan Administration. Presidents from both parties and the leadership in the Congress put key members from both parties in the same room, demanded that we not come out until we had a deal. We put everything on the table — discretionary, defense, entitlements, and revenues. There were days of negotiating and bargaining — three months at Andrews Air Force Base during the Bush Administration, days working with President Clinton on every line item in

the budget. There were war rooms to go to after every vote. We passed the Clinton budget by one vote in both the House and the Senate. But it was worth it. The result was a balanced budget, a surplus, and a booming economy. If today we were able to achieve a similar five-year budget deal that established caps on discretionary spending, achieved reforms and savings on entitlement programs, and provided additional revenues through tax reform — and included budget enforcement tools like “pay as you go” — we would have the kind of certainty and stability that would not help our economy and financial markets, but would be extremely important to the defense budget.

Despite a growing mood of withdrawal and restraint in both parties, the fact is we still live in a dangerous world that demands a strong defense that can back up a strong diplomacy. Otherwise, all we have is tough talk without backbone. We are still a nation at war. Terrorism remains a threat. North Korea is unpredictable and a security threat to the U.S. and the Asia Pacific region. Iran has 19,000 centrifuges that can produce enriched uranium for a nuclear weapon. We hope that the new leadership — Brouhani — is serious about negotiating but we take nothing for granted from a nation that has promoted

extremism and terrorism throughout five continents in the world. At the same time, there is continuing turmoil in the Middle East. Syria is being devastated by a civil war that amounts to the worst humanitarian crisis in the world, with 140,000 dead and eight to nine million displaced. We have to be more involved. We must provide aid to the opposition and maintain the threat of force. China continues to challenge international rules and Russia is doing the same in the Ukraine. Then there is the most dangerous threat in the 21st century: the threat of a cyber attack that could cripple the nation.

This is not time to undermine the defense of the nation. Make no mistake, after ten years of war, and the hopeful end of two wars, the defense budget can be reduced. As Secretary, the Congress handed me a number to cut defense by \$487 billion over ten years. Working with the military and civilian leadership, we developed a new defense strategy for the 21st century based on five key elements: 1) a smaller and leaner defense that would remain agile and quickly deployable on the cutting edge of technology; 2) force projection into the Pacific and the Middle East; 3) maintain a presence elsewhere through innovative

continued on flap...

rotational deployments that would emphasize training, exercises, helping nationals develop their own security, and new alliances; 4) the ability to confront more than one enemy at a time; and 5) investments in new technology, unmanned systems, space, special forces, cyber, rapid mobilization capabilities, a strong reserve, and a national guard protecting our industrial base. We can do this right if there is some stability to the budget. But we can do this wrong if there is continued uncertainty.

The impact of sequester, the government shutdown, and the failure to deal with entitlements has put more of the burden on discretionary spending, and Congress keeps kicking the can down the road. In addition, Congress keeps putting up barriers to give the Secretary the flexibility to implement reductions in a balanced way. They put up barriers to force reductions. They put up barriers to the BRAC process to reduce infrastructure. They put up barriers to procurement reforms. They put up barriers to compensation reform; with \$50 billion in healthcare alone, we're

talking about an area of the defense budget that has grown 80 percent. The result of these barriers is that the only way to reduce the defense budget is readiness, and that means a "hollowed out" force. We went through this in the past, and we paid the price of a defense force that was unable to respond effectively to crisis without the time necessary to mobilize. A weak defense sends a terrible message to a dangerous world and to dangerous leaders who will try to take advantage of weakness. We cannot, we must not, allow that to happen.

I believe in American leadership...after all, this nation throughout its history has faced all kinds of crises — from economic depressions and recessions, to world wars, to natural disasters — and somehow we have always risen to the occasion. I believe we can again. Why? Because the fundamental strength of America is not in Washington — it lies in the spirit, resilience, common sense and values of the American people. That was true for my immigrant parents, true for our forefathers, the pioneers, the millions of other immigrants

who came to America. As Secretary of Defense, I saw those values reflected in the men and women that serve this nation, who put their lives on the line, and are willing to fight and die for America. Change will happen. The hope is it will happen from the top down. But if it doesn't, let me assure you it will happen from the bottom up, when voters say enough is enough, and when a new generation of young men and women decide to get involved in public service.

After all, our forefathers created a system of government that was designed not to centralize power in any branch of government. It's a system designed to limit power but it is also designed to lead to gridlock. The key was that the ultimate power rested in the people. So in the end, the real power for change rests in our willingness to do whatever it takes to ensure that we have leadership and not crisis; we have an America in Renaissance; an America that can give our children a better life, a more secure nation, and a strong government of and by and for all people.

SIEPR *policy brief*

Stanford University
366 Galvez Street
Stanford, CA 94305
MC 6015

A publication of the
Stanford Institute for
Economic Policy Research

Non-Profit Org.
U.S. Postage
PAID
Palo Alto, CA
Permit No. 28

SIEPR

About SIEPR

The Stanford Institute for Economic Policy Research (SIEPR) conducts research on important economic policy issues facing the United States and other countries. SIEPR's goal is to inform policymakers and to influence their decisions with long-term policy solutions.

Policy Briefs

SIEPR policy briefs are meant to inform and summarize important research by SIEPR faculty. Selecting a different economic topic each month, SIEPR will bring you up-to-date information and analysis on the issues involved.

SIEPR policy briefs reflect the views of the author. SIEPR is a non-partisan institute and does not take a stand on any issue.

For Additional Copies

Please see SIEPR website at
<http://SIEPR.stanford.edu>.