

RELEASE IN PART
B6

FW: Forget State vs. Treasury -NY TIMES OP-ED

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Subject: FW: Forget State vs. Treasury -NY TIMES OP-ED

FYI - See note and op ed below

From: Hormats, Robert [redacted]
Sent: Friday, February 06, 2009 6:27 PM
To: Mills, Cheryl D
Subject: Forget State vs. Treasury -NY TIMES OP-ED

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<> Hello Cheryl,

It was great to see you last night. I very much enjoyed our conversation.

One point that I wanted to follow up on was the discussion of countries looking inward to resolve their financial/economic problems. I think we need to be very careful on that issue. Doing that, especially if it involves even a little protection, invites others to do the same. And exports necessary for us to get out of our downward spiral.

The attached piece, which I mentioned in our discussion, focuses on this topic. I think that the history here is highly relevant to Hillary's trip and the crisis we face today.

I hope you and she find it of interest.

Have a great weekend.

Best regards,

Bob Hormats

Opinion

Forget State vs. Treasury

By ROBERT HORMATS and DAVID M. KENNEDY

Published: November 29, 2008

AMONG the parallels between our present financial turmoil and the Great Depression of the 1930s, few are more important to understand than the implications of economic upheaval for national security. One lesson from the Depression bears repeating loudly: Economic policy and foreign policy are not two distinct domains. They constitute a strategic nexus whose interconnections we ignore at our peril.

The perception that the United States was too enfeebled by its domestic travails to defend its interests emboldened Japan to invade Manchuria in 1931. The spectacle of Depression-era America continued to feed Japanese aggression, leading eventually to the brazen gamble that a single blow at Pearl Harbor might so demoralize the economically enervated Americans that they would throw in the towel and leave Asia to Japan.

In the 1930s, as now, in the face of severe economic affliction the temptation was strong to turn inward, to "put our own house in order" and tend to the international neighborhood later. That was Franklin Roosevelt's policy in 1933. "Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy," he said in his first inaugural address.

Accordingly, Roosevelt left unchallenged the Smoot-Hawley Tariff passed during the Hoover administration, and he added some nationalist measures of his own. Perhaps his worst decision was to scuttle London's World Economic Conference in 1933, convened to discuss international debt rescheduling, exchange-rate stabilization and the restoration of the gold standard. The conference afforded the last, desperate chance to deliver a concerted international counterpunch to the worldwide depression. Yet Roosevelt effectively withdrew the American delegation in July by declaring that the United States would have no further truck with the "old fetishes of so-called international bankers."

Among those who drew malign conclusions was Hitler. Watching events from his Berlin chancellery, he calculated that the economic weakness of his adversaries opened vistas of opportunity for conquest. The inability of the democracies to cooperate economically portended their inability to cooperate militarily or diplomatically. And the ailing economy that was driving the United States inward removed America from Hitler's geopolitical calculus altogether.

On Nov. 5, 1937, having re-armed Germany in violation of its Versailles Treaty obligations, Hitler presented his senior political and military officials with an exhaustive blueprint for aggression. Over four hours, he analyzed in detail the probable reactions of other powers, including Britain, France, Russia, Italy, Japan, Belgium and Czechoslovakia. He did not even mention the United States, which he deemed incapable of offering serious resistance. By going AWOL