

Rebuilding War-Torn Economies

The U.S. military is developing a civilian-military collaboration for reconstruction and economic development of nations like Afghanistan.

by Brigadier General Eric Peck, Kansas State National Guard, and Lynndee Kemmet, Network Science Center at West Point and AIER Research Associate

Recently, President Obama announced plans to begin troop withdrawals from Afghanistan. The biggest obstacle to withdrawals has been the stabilization of the war-torn economy there. We can't leave until Afghans are able to support themselves. To that end, the U.S. military created teams charged with jump-starting the Afghan economy, modeled after National Guard efforts elsewhere. AIER learned of this through Research Associate Lynndee Kemmet and our relationship with the Network Science Center at West Point. Kemmet spearheaded the creation of a collaborative research project between West Point researchers and the National Guard, and AIER has been invited to participate. We thought our members might be interested in this emerging economic application.

The Agribusiness Development Team (ADT) Project is located within the Network Science Center at West Point. Initially created to support the National Guard's Agribusiness Development Teams operating in Afghanistan, the collaborative project is expanding its support to Guard development teams around the world.

It is a goal of the ADT Project to serve as the center of a support network for units responding to post-conflict/post-disaster situations. The project represents an innovative approach to achieving U.S. foreign policy goals aimed at stabilizing economically depressed regions that often serve as recruiting grounds for terrorism.

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to foster economic activity in the world's least developed and most unstable regions. The stability to which these missions contribute is critical to creating a more secure world.

Although the ADT Project supports the concept of military units as catalysts, sustained economic activity depends on the transition to the private sector. To facilitate this, the project uses an innovative approach to economics, based on network science.

Teams identify individuals, operations, and relationships that are critical to the construction or

reconstruction of the economy. The teams facilitate, support, and build these operations and relationships to create a working, self-sustaining, and growing economy.

For the past two decades, National Guard soldiers—America's citizen-soldiers—have volunteered for missions in developing nations as part of the Guard's State Partnership program.

Under the program, various state Guards form partnerships with other nations. The joint work involves shared training in search and

rescue techniques, joint training in emergency response, training in security and anti-terrorism techniques, and working on reconstruction and economic development.

Five years ago, the National Guard Bureau took this partnership concept to Afghanistan and created the ADTs.

They are company-sized units of 55-70 Guard members who contribute both their military training and their civilian skills in reconstruction and economics. These soldiers also provide links to academic institutions and other public and private organizations.

Inside this report With 70 percent of the government's debt coming due in the next five years, the country faces an enormous challenge. There is no way the U.S. can use tax revenues to pay off the whopping \$5.5 trillion it owes. The most likely solution, writes Research Fellow Polina Vlasenko, is monetization of debt—in other words, inflation. See back page.

Also Senior couples who don't marry for financial reasons still need to make formal agreements. See Ask the Expert. Page 3.

ADTs engage in economic development in areas where security risks are too great for non-governmental aid organizations, for private sector businesses, or for civilian governmental aid organizations.

As a result, ADTs are ideal for the initial stage of post-conflict/post-disaster development in unstable regions.

The ADTs have had much success, but the ADT model does need improvement.

One needed improvement is better coordination and information sharing among military units, civilian government, and non-governmental entities.

The model also needs to foster partnerships that would improve the transition from military-led development to an independently functioning private sector.

In addition, the project needs a research agenda that focuses on community recovery and economic growth in post-conflict/post-disaster situations during times of instability.

The research of the ADT Project seeks to build a network model in which military units, in coordination with civilian entities, can first identify and then help build the critical components of a well-functioning economic system.

Current work has involved the collection of data and “lessons learned” from ADTs in their missions. This information is being shared among ADTs. Project researchers also are collecting information from other economic development research projects that could be useful in providing guidance to ADTs in overcoming challenges.

The ADT Project is working with the Defense Advanced Research Projects Agency (DARPA) on a software program that can assist the military units as they plan recovery and development projects.

DARPA’s interest is assisting units operating in Afghanistan. ADT Project researchers hope to

expand the use of this software to future conflicts or disasters in which a unit must plan, execute, or support community recovery.

In addition to support from DARPA, the ADT Project has support from the Network Science Center at West Point and the Kauffman Foundation for the initial stages of research.

Besides applications in Afghanistan and Africa, the ADT Project has the potential to contribute to other economic development efforts of the U.S. Army and the U.S. Agency for International Development (USAID). Of particular interest to USAID is the integration of the private sector into military development efforts.

While the National Guard ADTs are currently driving this, the regular Army has begun working with the Guard to expand the model into other nations. The Army’s

To convert a managed, dependent economy into an autonomous, independent one requires a systemic approach.

African Command, in particular, has indicated an interest in using the work of the ADT Project to support military-led missions.

Despite decades of research on how to move underdeveloped nations toward development, the answer has been elusive because it is complex.

One common approach for addressing complexity is to simplify by breaking down an economy into component parts and studying each component.

This approach leads to great insight into the pieces that make up the whole, but often not great understanding of the relationships of the parts to the whole.

In Afghanistan, for example, there are many entities undertaking development work—U.S. government agencies, foreign government agencies, multiple military units, Afghan government agencies and a host of

non-governmental organizations.

Many of these organizations make important contributions. But most operate with little awareness of the work of other organizations. Nor do they have clear ideas of how their work relates or contributes to the health of the whole system or negatively impacts it.

In fact, the overlap of effort and lack of coordination resulting from the clash of multiple organizations has created a significant challenge to the success of development efforts in Afghanistan.

This is where network science comes in. It is an approach that seeks to understand the role and relationship of the various parts of systems.

In the past, it was applied in technological fields such as computer science, physics, or mathematics. More recently, social scientists have begun to apply this approach to the study of social systems, including political systems and economic systems.

The Network Science Center has begun using network science research to build a successful model for rapid economic reconstruction that takes into account the need to coordinate efforts of many actors. Clearly, this is not a problem unique to Afghanistan.

Much effort and much money have been spent on development.

Each organization believes that its project is the key to economic success, whether that project focuses on education of women, micro-financing, health care, food security, improved transportation, improved local governance, legal structures, land rights, or a myriad of other elements.

All of these factors can play key roles. But it is their successful integration in time and space and with cultural norms that results in a well-functioning and sustainable economic system.

Public organizations engaged in economic development often do not

court partnerships with the private sector. Businesses and entrepreneurs often act independently rather than coordinating their efforts with the public sector. Government agencies and military units often have the authority necessary to initiate and guide reconstruction and development efforts, but lack the ability to sustain them.

To convert a managed, dependent economy into an autonomous, independent one requires a systemic approach.

Over the next 12 months, efforts will focus in several specific areas.

Researchers need to understand agricultural economic systems in likely regions.

They need to understand the actors engaged in development in the areas of operation of military units with the goal of improved information sharing and coordination of efforts among military and civilian entities.

They also need to understand how to develop partnerships with private businesses and investors.

Providing the local population with access to a secure food supply is a necessary first step toward stabilizing regions ravaged by conflict or natural disaster. Once the food supply is secure, development missions can begin to focus on expansion of the agricultural sector as a step toward economic development.

In the first stage of the project, we are working with select ADTs to outline the components of food systems in their areas of operation and to identify the assistance efforts of all the governmental and non-governmental organizations.

The study of a food system must address two critical questions: How best to rebuild a food system that has been destroyed and how best to protect food systems if threatened by future conflict or disaster.

Information needed on the food system network in an ADT's area of operations include the points of supply, the food transportation system—both inputs and final

products, location of processing plants, plant/animal diseases, and the potential routes for the spread of disease and/or contaminants.

Once the ADT Project develops a mapping of a local area's entire agricultural system based on network science, military teams will be able to identify areas critical to the protection of the system.

Gaps in food systems can be then be filled to improve the flow of food. These gaps include production inputs, gaps in plant or animal health, or even gaps in policy and laws, such as land-ownership policies. Filling these gaps could prevent chaos resulting from food shortages.

There is generally good cooperation among ADTs and other development actors, but there is not always good coordination.

Therefore, the network maps also will include the operations of the actors, their resources, their relationships to one another, and the links between their projects.

To facilitate this, DARPA is developing a computer program that helps plan and track development projects.

With this network picture, development leaders can assess which actors are critical to coordinating community recovery and economic development and which are more likely to sustain those efforts after the withdrawal of military units.

Building on the model of ADTs operating in Afghanistan, the ADT Project aims to develop a more successful strategy for the recovery and development of regional economic systems destroyed by conflict and/or natural disaster.

It does not matter if that economic system is in the U.S. or abroad. Project researchers believe a better strategy is a system-wide approach involving coordination of effort.

It is our hope that such coordination will result in more effective achievement of policy objectives abroad and foster recovery in distressed areas at home.

ASK THE EXPERT Senior Arrangements

There are substantial financial reasons for avoiding marriage later in life.

A remarrying senior may face the loss of a former spouse's pension benefits, military survivor's benefits, or Social Security benefits. Marriage also could create complications in regard to medical costs and Medicaid eligibility and may place assets in jeopardy for the medical costs incurred by a new spouse. (We will explore this in a future column.)

That's why the trend of seniors living together without being married has accelerated tremendously over the past 20 years

While living together may seem like a good option, it certainly is not a simple one. Merely because a couple is not married does not mean that a court could not order a property division at the termination of the relationship.

Any couple considering living together without being married should have a living together agreement. The agreement spells out the rights and responsibilities of the parties while they are together. It also delineates financial terms upon the ending of the relationship either by splitting up or because of the death of one of the partners.

Each state has its own rules regarding agreements. No one should live with someone else in a long-term relationship without one. This is also the time that each member of the couple should update his or her will, health care proxies, and durable powers of attorney.

—Steven J.J. Weisman is a lawyer and author. His website is www.stevelaw.net.

To submit questions for future columns, email asktheexpert@aier.org. For guidance on specific situations, consult your lawyer or financial advisor.

The Long Term is Now

More than \$5.5 trillion in federal debt will come due in the next five years.

by Polina Vlasenko, PhD, Research Fellow

The need to raise the statutory federal debt limit, which the U.S. Treasury expects to reach May 16, has prompted discussions about the nation's fiscal challenges. These challenges are driven mainly by long-term factors such as an aging population and rising medical costs. Two of the biggest federal programs—Social Security and Medicare—together account for 34 percent of all federal outlays. In contrast, national defense spending accounts for only 20 percent.

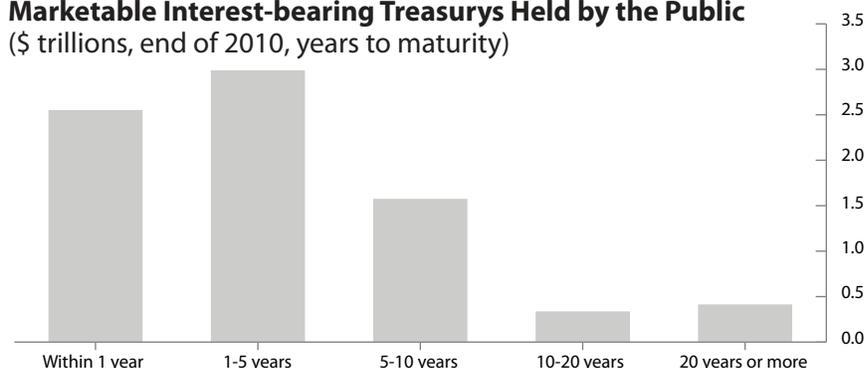
Solving these long-term challenges is more urgent than it may seem. The reason is the maturity structure of the outstanding federal debt, as the chart above shows.

The total value of the marketable interest-bearing Treasury securities held by the public at the end of 2010 was \$7.8 trillion. This number reflects securities on which the government has to pay interest to private investors. It excludes non-marketable securities held by various government agencies (such as bonds held in the Social Security trust fund) and all Treasuries held by the Federal Reserve banks.

Of the \$7.8 trillion in outstanding Treasuries, \$2.5 trillion come due within a year, and another \$3 trillion within the following four years. In other words, during 2011-2015 the government will have to refinance \$5.5 trillion of debt or about 70 percent of all the Treasuries held by the public.

It will be impossible to simply repay \$5.5 trillion from tax revenues. Instead, the U.S. Treasury will have to roll over this debt. This requires finding private investors willing to buy \$5.5 trillion worth of Treasury bonds. If investors have doubts about the government's ability (or willingness) to meet its obligations

Marketable Interest-bearing Treasuries Held by the Public
(\$ trillions, end of 2010, years to maturity)



Source: Treasury Bulletin, March 2011.

in the future, rolling over debt may be difficult.

When investors perceive increased risk, they demand higher interest rates. Even a small increase in the interest rate would significantly raise interest payments on the debt. For example, should interest rates increase by one percentage point, it will lead to interest payments on the debt being \$55 billion higher *every year* for the life of the newly issued bonds. This is 2.5 percent of the total federal budget revenue in 2010.

The current maturity structure is not new. Federal debt has been structured in this way for years. But given the sheer magnitude of the debt, a number of factors may lead investors to perceive increased risk.

In the extreme case, the inability of Congress to address fiscal problems may eventually lead to default, i.e. an inability to make interest and principal payments on time. The likelihood of this is quite low, but even a remote possibility of such an outcome can make investors nervous.

A far more likely outcome is monetization of the debt. This happens when the Federal Reserve, instead of the private investors, buys the bulk of the Treasury bonds,

essentially printing money in order to pay for them. This results in higher inflation, which erodes the purchasing power of the dollar. Aware of this possibility, investors may demand higher interest rates to compensate for the lower purchasing power of the dollars they eventually will receive when bonds are repaid.

This is why it is important for politicians to send a clear sign to the markets today that they are serious about addressing long-term fiscal imbalances. In a sense, the long term is now. Simply extending the debt limit without taking any serious steps to address fiscal imbalances does not inspire much confidence.

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Price of gold, May 12, 2011, London PM fix.