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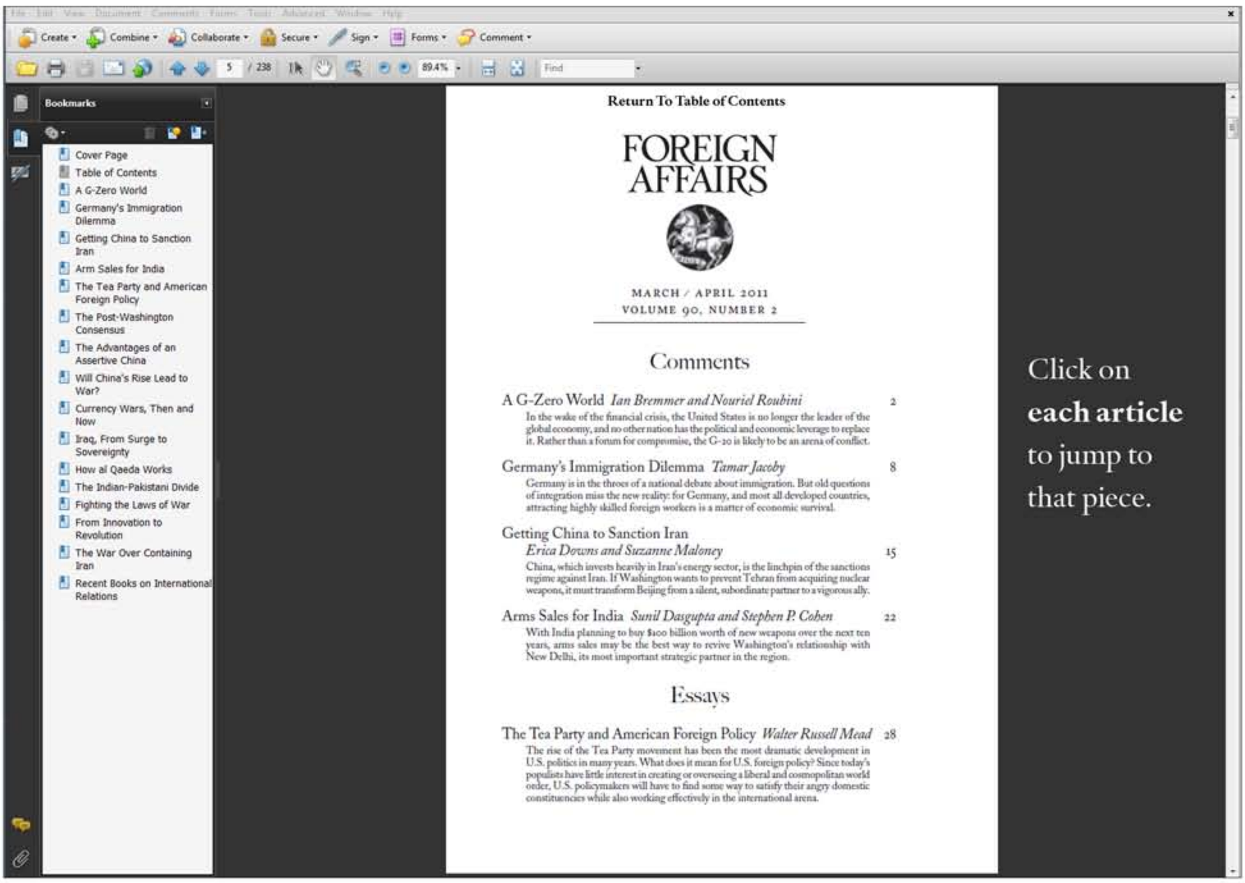

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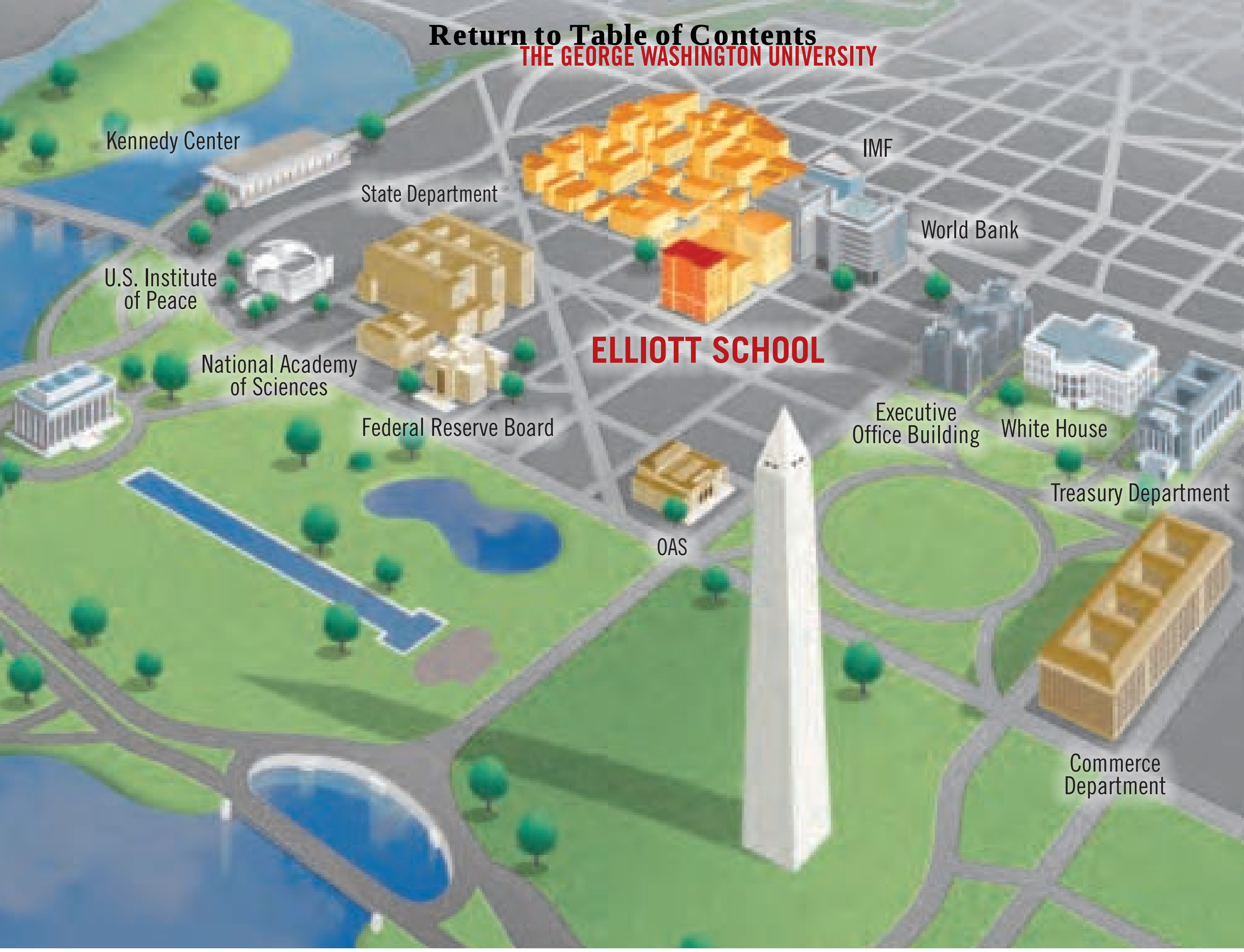

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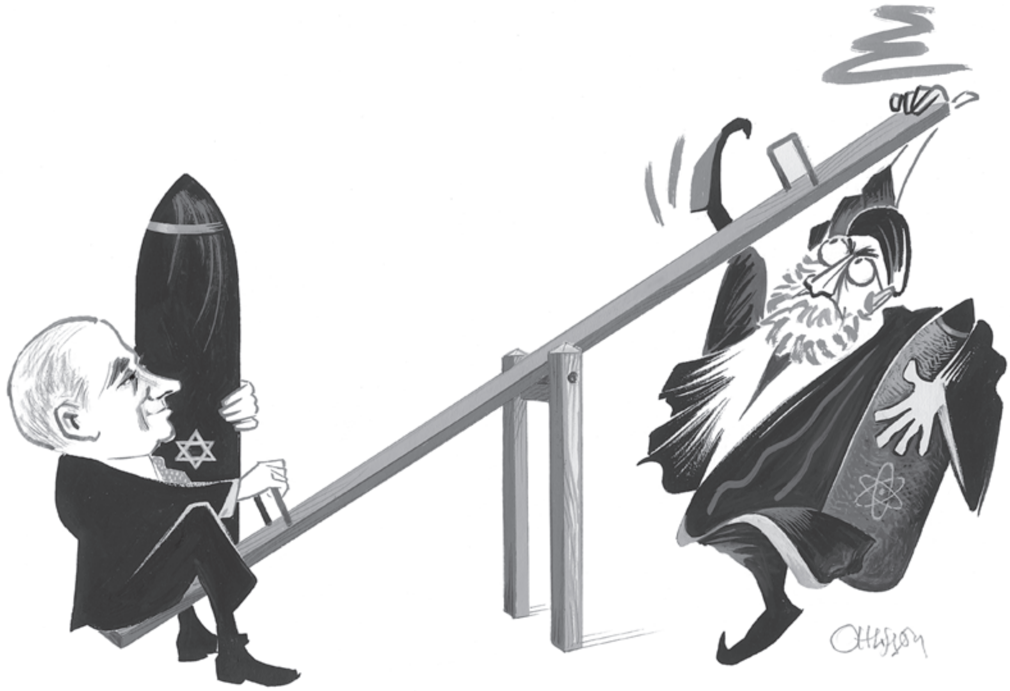

By creating a more stable balance of military power in the Middle East, a nuclear-armed Iran would be the best possible outcome of the West's standoff with the Islamic Republic.

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Why Iran Should Get the Bomb

Nuclear Balancing Would Mean Stability

Kenneth N. Waltz

The past several months have witnessed a heated debate over the best way for the United States and Israel to respond to Iran's nuclear activities. As the argument has raged, the United States has tightened its already robust sanctions regime against the Islamic Republic, and the European Union announced in January that it will begin an embargo on Iranian oil on July 1. Although the United States, the EU, and Iran have recently returned to the negotiating table, a palpable sense of crisis still looms.

It should not. Most U.S., European, and Israeli commentators and policymakers warn that a nuclear-armed Iran would be the worst possible outcome of the current standoff. In fact, it would probably be the best possible result: the one most likely to restore stability to the Middle East.

POWER BEGS TO BE BALANCED

The crisis over Iran's nuclear program could end in three different ways. First, diplomacy coupled with serious sanctions could convince Iran to abandon its pursuit of a nuclear weapon. But this outcome is unlikely: the historical record indicates that a country bent on acquiring nuclear weapons can rarely be dissuaded from doing so. Punishing a state through economic sanctions does not inexorably derail its nuclear program. Take North Korea, which succeeded in building its weapons despite countless rounds of sanctions and UN Security Council resolutions. If Tehran determines that its security depends on possessing nuclear weapons, sanctions are unlikely to change its mind. In fact, adding still more sanctions now could make Iran feel even more vulnerable, giving it still more reason to seek the protection of the ultimate deterrent.

The second possible outcome is that Iran stops short of testing a nuclear weapon but develops a breakout capability, the capacity to build and test one quite quickly. Iran would not be the first country to acquire a sophisticated nuclear program without building an actual bomb. Japan, for instance, maintains a vast civilian

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nuclear infrastructure. Experts believe that it could produce a nuclear weapon on short notice.

Such a breakout capability might satisfy the domestic political needs of Iran's rulers by assuring hard-liners that they can enjoy all the benefits of having a bomb (such as greater security) without the downsides (such as international isolation and condemnation). The problem is that a breakout capability might not work as intended.

The United States and its European allies are primarily concerned with weaponization, so they might accept a scenario in which Iran stops short of a nuclear weapon. Israel, however, has made it clear that it views a significant Iranian enrichment capacity alone as an unacceptable threat. It is possible, then, that a verifiable commitment from Iran to stop short of a weapon could appease major Western powers but leave the Israelis unsatisfied. Israel would be less intimidated by a virtual nuclear weapon than it would be by an actual one and therefore would likely continue its risky efforts at subverting Iran's nuclear program through sabotage and assassination—which could lead Iran to conclude that a breakout capability is an insufficient deterrent, after all, and that only weaponization can provide it with the security it seeks.

The third possible outcome of the standoff is that Iran continues its current course and publicly goes nuclear by testing a weapon. U.S. and Israeli officials have declared that outcome unacceptable, arguing that a nuclear Iran is a uniquely terrifying prospect, even an existential threat. Such language is typical of major powers, which have historically gotten riled up whenever another country has begun to develop a nuclear weapon of its own. Yet so far, every time another country has managed to shoulder its way into the nuclear club, the other members have always changed tack and decided to live with it. In fact, by reducing imbalances in military power, new nuclear states generally produce more regional and international stability, not less.

Israel's regional nuclear monopoly, which has proved remarkably durable for the past four decades, has long fueled instability in the Middle East. In no other region of the world does a lone, unchecked nuclear state exist. It is Israel's nuclear arsenal, not Iran's desire for one, that has contributed most to the current crisis. Power, after all, begs to be balanced. What is surprising about the Israeli case is that it has taken so long for a potential balancer to emerge.

Of course, it is easy to understand why Israel wants to remain the sole nuclear power in the region and why it is willing to use force to secure that status. In 1981, Israel bombed Iraq to prevent a challenge to its nuclear monopoly. It did the same to Syria in 2007 and is now considering similar action against Iran. But the very acts that have allowed Israel to maintain its nuclear edge in the short term have prolonged an imbalance that is unsustainable in the long term. Israel's proven ability to strike potential nuclear rivals with impunity has inevitably made its enemies anxious to develop the means to prevent Israel from doing so again. In this way, the current tensions are best viewed not as the early stages of a relatively recent Iranian nuclear crisis but rather as the final stages of a decades-long Middle East nuclear crisis that will end only when a balance of military power is restored.

UNFOUNDED FEARS

One reason the danger of a nuclear Iran has been grossly exaggerated is that the debate surrounding it has been distorted by misplaced worries and fundamental misunderstandings of how states generally behave in the international system. The first prominent concern, which undergirds many others, is that the Iranian regime is innately irrational. Despite a widespread belief to the contrary, Iranian policy is made not by "mad mullahs" but by perfectly sane ayatollahs who want to survive just like any other leaders. Although Iran's leaders indulge in inflammatory and hateful rhetoric, they show no propensity for self-destruction. It would be a grave error for policymakers in the United States and Israel to assume otherwise.

Yet that is precisely what many U.S. and Israeli officials and analysts have done. Portraying Iran as irrational has allowed them to argue that the logic of nuclear deterrence does not apply to the Islamic Republic. If Iran acquired a nuclear weapon, they warn, it would not hesitate to use it in a first strike against Israel, even though doing so would invite massive retaliation and risk destroying everything the Iranian regime holds dear.

Although it is impossible to be certain of Iranian intentions, it is far more likely that if Iran desires nuclear weapons, it is for the purpose of providing for its own security, not to improve its offensive capabilities (or destroy itself). Iran may be intransigent at the negotiating table and defiant in the face of sanctions, but it still acts to secure its own preservation. Iran's leaders did not, for example, attempt to close the Strait of Hormuz despite issuing blustery warnings that they might do so after the EU announced its planned oil embargo in January. The Iranian regime clearly concluded that it did not want to provoke what would surely have been a swift and devastating American response to such a move.

Nevertheless, even some observers and policymakers who accept that the Iranian regime is rational still worry that a nuclear weapon would embolden it, providing Tehran with a shield that would allow it to act more aggressively and increase its support for terrorism. Some analysts even fear that Iran would directly provide terrorists with nuclear arms. The problem with these concerns is that they contradict the record of every other nuclear weapons state going back to 1945. History shows that when countries acquire the bomb, they feel increasingly vulnerable and become acutely aware that their nuclear weapons make them a potential target in the eyes of major powers. This awareness discourages nuclear states from bold and aggressive action. Maoist China, for example, became much less bellicose after acquiring nuclear weapons in 1964, and India and Pakistan have both become more cautious since going nuclear. There is little reason to believe Iran would break this mold.

As for the risk of a handoff to terrorists, no country could transfer nuclear weapons without running a high risk of being found out. U.S. surveillance capabilities would pose a serious obstacle, as would the United States' impressive and growing ability to identify the source of fissile material. Moreover, countries can never entirely control or even predict the behavior of the terrorist groups they sponsor. Once a country such as Iran acquires a nuclear capability, it will have every reason to maintain full control over its arsenal.

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After all, building a bomb is costly and dangerous. It would make little sense to transfer the product of that investment to parties that cannot be trusted or managed.

Another oft-touted worry is that if Iran obtains the bomb, other states in the region will follow suit, leading to a nuclear arms race in the Middle East. But the nuclear age is now almost 70 years old, and so far, fears of proliferation have proved to be unfounded. Properly defined, the term "proliferation" means a rapid and uncontrolled spread. Nothing like that has occurred; in fact, since 1970, there has been a marked slowdown in the emergence of nuclear states. There is no reason to expect that this pattern will change now. Should Iran become the second Middle Eastern nuclear power since 1945, it would hardly signal the start of a landslide. When Israel acquired the bomb in the 1960s, it was at war with many of its neighbors. Its nuclear arms were a much bigger threat to the Arab world than Iran's program is today. If an atomic Israel did not trigger an arms race then, there is no reason a nuclear Iran should now.

REST ASSURED

In 1991, the historical rivals India and Pakistan signed a treaty agreeing not to target each other's nuclear facilities. They realized that far more worrisome than their adversary's nuclear deterrent was the instability produced by challenges to it. Since then, even in the face of high tensions and risky provocations, the two countries have kept the peace. Israel and Iran would do well to consider this precedent. If Iran goes nuclear, Israel and Iran will deter each other, as nuclear powers always have. There has never been a full-scale war between two nuclear-armed states. Once Iran crosses the nuclear threshold, deterrence will apply, even if the Iranian arsenal is relatively small. No other country in the region will have an incentive to acquire its own nuclear capability, and the current crisis will finally dissipate, leading to a Middle East that is more stable than it is today.

For that reason, the United States and its allies need not take such pains to prevent the Iranians from developing a nuclear weapon. Diplomacy between Iran and the major powers should continue, because open lines of communication will make the Western countries feel better able to live with a nuclear Iran. But the current sanctions on Iran can be dropped: they primarily harm ordinary Iranians, with little purpose.

Most important, policymakers and citizens in the Arab world, Europe, Israel, and the United States should take comfort from the fact that history has shown that where nuclear capabilities emerge, so, too, does stability. When it comes to nuclear weapons, now as ever, more may be better.

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Europe's Optional Catastrophe

The Fate of the Monetary Union Lies in Germany's Hands

Sebastian Mallaby

Two decades ago, when the European currency system was last on the brink of collapse, the ultimate question was how much Germany, the continent's economic powerhouse, would do to save it. The peripheral economies were hurting, weighed down by a monetary policy that was appropriate for Germany but too austere for weaker European countries. Germany's central bank, the Bundesbank, had to make a choice. It could continue to set high interest rates, thus upholding its commitment to stable prices. Or it could cut rates and accept modest inflation—and so save the rest of Europe from a prolonged recession.

We know which option Germany chose then. The Bundesbank brushed off suggestions that it should risk inflation for the sake of European solidarity; speculators correctly concluded that this made a common monetary policy intolerable for the weaker economies of Europe; and in September 1992, the continent's Exchange Rate Mechanism, a precursor of today's euro, shattered under the pressure of attacks from hedge funds. Almost 20 years later, the world is waiting for a new answer to the same question. How far will Germany go to keep Europe together?

The economist Rudiger Dornbusch observed that in economics, crises take longer to come to a head than you think they will, and then they happen faster than you thought they could. By the time you read this, the eurozone may have splintered. But whether or not that has happened, or soon will, one thing is certain. Since the beginning of the crisis, Germany has had the power to save the monetary union if it wanted to. The union's disintegration would be an optional catastrophe.

SUPERMAN CENTRAL BANKERS

To see why the euro's failure could be averted, one must first grasp the awesome power of today's central banks. Until World War I, the advanced economies were tethered to the gold standard, meaning that central banks could not print money in unlimited quantities. Likewise, for almost all the years since World War II, the power of the printing press has been

Sebastian Mallaby is Paul A. Volcker Senior Fellow for International Economics at the Council on Foreign Relations and the author, most recently, of *More Money Than God: Hedge Funds and the Making of a New Elite*.

checked, first by a diluted version of the gold standard and then by the fear of inflation. But the combination of fiat currencies and economies that are in a slump changes the game. Money, no longer tied to gold or any other firm anchor, can be created instantly, in infinite quantities, on the technocrats' say so. And so long as factories have spare capacity and unemployment keeps wages in check, there is unlikely to be any significant penalty from inflation.

Of course, central banks had this same power in the 1930s, when the world was in a depression and the gold standard had been abandoned. But they hesitated to use it, a decision documented and lamented by monetary historians from Milton Friedman to Ben Bernanke (the current chair of the U.S. Federal Reserve). Since 2008, by contrast, central bankers have been determined to prove that they understand history's lessons. Appearing on Capitol Hill shortly after the investment bank Lehman Brothers filed for bankruptcy in 2008, Bernanke himself informed Barney Frank, then chair of the House Financial Services Committee, that the Federal Reserve would stabilize the insurer AIG at a cost of more than $80 billion. "Do you have $80 billion?" Frank asked. "We have $800 billion," Bernanke responded. In fact, by December 2008, the Fed had extended fully $1.5 trillion in emergency financing to markets, dwarfing the $700 billion bailout fund authorized by Congress through the Troubled Asset Relief Program (TARP).

Central banks on the other side of the Atlantic have acted with equal resolve. For much of 2011, Europe's political leadership bickered about the details of the European Financial Stability Facility (EFSF), a TARP-like bailout fund with an intended firepower of 440 billion euros. Then, one day last December, the European Central Bank provided 489 billion euros to the continent's ailing banks, and in February 2012, it repeated this stunt, effectively conjuring the equivalent of two EFSFs out of thin air through the magic of the printing press. Since the start of 2007, the ECB has purchased financial assets totaling 1.7 trillion euros, expanding its portfolio from 13 percent to over 30 percent of the eurozone's GDP. That means that the ECB has printed enough money to increase its paper wealth by an amount exceeding the value of eight years of Greek output.

This superman act has, at least as of this writing, saved the euro system from breaking up. Without the central bank's extraordinary support, private banks across the eurozone would have struggled to raise money and would have collapsed. Private firms, unable to take out bank loans, would also have gone under. The debtor countries would not have been able to rely on banks to purchase their government bonds and thus would have defaulted, in turn devastating the private banks that already held their bonds. The ECB's printing of money duly improved sentiment in the market. The interest rate on Italy's ten-year bonds, for example, tumbled, from around seven percent to about 5.5 percent, although it has since risen.

The ECB will eventually use up its room for maneuver. Some observers fear that the sheer volume of freshly minted euros is bound to lead to serious inflation, either when money begins to circulate faster or when the mere prospect of that event creates self-fulfilling inflationary

REUTERS / ALEX DOMANSKI

Bank job: Bundesbank President Jens Weidmann in Frankfurt, March 2012

expectations. But the best bet is that, with growth flat and unemployment over ten percent, the threat of inflation spiking across the continent is remote: with plenty of spare capacity on hand, any rise in demand will be met with increases in supply rather than with higher prices. For the foreseeable future, therefore, the ECB can keep on printing money to prop up banks. It can expand its modest direct purchases of government securities to ensure that finance ministries can raise money at less than punitive interest rates. It could even extend its support to nonfinancial firms, for example, by announcing that it stands ready to hold loans to small businesses on its own balance sheet. Most obviously, the ECB can help manage the crisis by keeping short-term interest rates low.

Increasing the money supply is sometimes dismissed as a mere palliative. But in addition to propping up banks, businesses, and governments, easy money can facilitate structural adjustment. If the ECB prints enough money to hit its target of two percent inflation across the continent, this is likely to mean zero inflation in the crisis countries, where unemployment is high, and three to four percent inflation in Europe's strong economies, where workers are confident enough to demand wage increases. By delivering on its inflation target, in other words, the ECB can help Italy and Spain compete against Germany and the Netherlands, gradually eroding the gap in labor costs that lies at the heart of Europe's troubles. At the same time, a determined and sustained period of monetary easing would probably weaken the euro. That would boost the competitiveness of the crisis economies against the rest of the world, further increasing the odds of an export-led recovery.

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In short, the ECB has real power. It can avert a market meltdown and at the same time gradually make the periphery more competitive. But for the ECB to deliver on its potential, Germany must resolve not to get in the way. It must allow for an expansion of the ECB's innovative rescue measures and accept German inflation of three to four percent. Over the past year, unfortunately, German financial leaders have sent mixed signals. The big question of 1992—how far would Germany go for the sake of European solidarity?—has not been clearly answered. And so Europe's future remains cloudy.

THE PATH OUT

Germany's leaders are correct that the countries in crisis must earn their own recoveries; the ECB cannot save them on its own. In particular, they must improve the administration of public finances, cracking down on tax evasion and wasteful spending, and remove product and labor-market regulations that undermine competitiveness. But these reforms tend to pay off in the long term. In the short term, slashing budgets will shrink demand and quell growth, while some labor-market reforms that make it easier to fire workers may initially drive up unemployment, undermine consumer confidence, and reduce growth further. The most urgent complements to the ECB's response therefore lie elsewhere—and they demand initiative from Germany.

Germany first needs to recalibrate its attitude toward public finances in the periphery. Thus far, the German strategy has emphasized deficit reduction, on the theory that countries that borrow less will accumulate less debt in the long run. But because deficit reduction keeps an economy from growing, it may defeat its own purpose. Over the past year, the eurozone has indeed cut deficits sharply, but the debt-to-GDP ratio has worsened. Germany needs to accept that aggressive austerity programs are neither politically sustainable nor economically wise. To get its debt under control, a country must attack its debt stock directly.

If Europe's leaders had mounted a forceful response earlier in the crisis, they could have imposed a meaningful debt reduction on private creditors across the continent. But by now, most private creditors have sold out, transferring their debt to the International Monetary Fund, the ECB, and other official creditors. (To be sure, private European banks hold large portfolios of European government bonds. But since the public sector stands ready to bail out these banks, they are not true private creditors.) Last year's restructuring of Greece's debt illustrated the problem. Almost two years into the Greek crisis, the country's private creditors were forced to accept a reduction of about 65 percent in the value of their claims. But at that point, most private creditors had already shed their government debt, so the resulting debt relief for Greece was far short of what the country needed to fix its finances.

Given that governments in the surplus countries and multilateral lenders have become significant creditors to the crisis countries, debt relief has to involve leniency on their part. This is unlikely to take the form of an explicit reduction in debt claims: the credibility of the International Monetary Fund and the ECB would suffer too much from an admission that their loans can be defaulted on. Nor is it likely to involve taxpayers in Europe's core explicitly paying off debts owed by the periphery:

that would be politically explosive. The most plausible route to debt reduction is to create a eurozone bond, so that part of the debt of the crisis countries can be replaced by debt issued by the whole region. The German government's economic advisers have put forward a plan that would achieve this goal; now, the government needs to embrace it.

In addition to tackling governments' debt overhangs, Europe's leaders need to shore up the continent's banking system, which has been plagued by a surfeit of bad loans and, until recently at least, a deficit of honesty about them. Until the banks confess that loans to unemployed homeowners or ailing businesses won't be repaid on time, and until they set aside capital to cover their losses, their unacknowledged frailty will inhibit their lending: too few individuals and businesses will be able to borrow money, and growth will remain anemic. Moreover, the banks' return to health is a precondition for restoring confidence in the market, since the possibility of costly bank failures casts a shadow over the crisis countries. For the moment, the ECB's generous financing has guaranteed the banks' liquidity, inoculating them against the lending strike they have suffered in the private bond markets. But if millions of depositors begin to desert the banks at once, the ECB's liquidity may not be enough, and no amount of liquidity can address the banks' solvency. Unless banks keep more capital on hand, they risk collapse. Private investors are unlikely to provide these funds, and the governments of the crisis countries are too stretched to do the job alone. Some of the money will therefore have to come from stronger European governments.

GERMANY'S CHOICE

In 1992, Germany prioritized managing its own economy over supporting European integration. It then seemed to show remorse and came around to supporting the creation of a common European currency. Despite the clear risks in binding disparate economies to a single monetary policy, the political drive to unite Europe won out. "The history of the European monetary unification is characterized by slow, but steady, progress in the face of constant skepticism and predictions of catastrophes," Otmar Issing, a German member of the ECB's executive board, proclaimed in 2001. "The launch of the single monetary policy was a resounding success."

Yet despite Issing's triumphalism, Germany today seems confused about which way it wants to go. The weight of blood and history argues in favor of keeping Europe together, and Germany's industrial captains understand that their success as exporters would be choked off by a return to a strong national currency. At the same time, however, Germany's leaders resist even modest inflation and are understandably wary of backing up other countries' debt or rescuing their banking systems. Germany is of course free to choose whichever path it wants. But if it replays 1992, the "resounding success" of the euro will go down in history as a resounding failure.

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The Cuban Missile Crisis at 50

Lessons for U.S. Foreign Policy Today

Graham Allison

Fifty years ago, the Cuban missile crisis brought the world to the brink of nuclear disaster. During the standoff, U.S. President John F. Kennedy thought the chance of escalation to war was "between 1 in 3 and even," and what we have learned in later decades has done nothing to lengthen those odds. We now know, for example, that in addition to nuclear-armed ballistic missiles, the Soviet Union had deployed 100 tactical nuclear weapons to Cuba, and the local Soviet commander there could have launched these weapons without additional codes or commands from Moscow. The U.S. air strike and invasion that were scheduled for the third week of the confrontation would likely have triggered a nuclear response against American ships and troops, and perhaps even Miami. The resulting war might have led to the deaths of 100 million Americans and over 100 million Russians.

The main story line of the crisis is familiar. In October 1962, a U.S. spy plane caught the Soviet Union attempting to sneak nuclear-tipped missiles into Cuba, 90 miles off the United States' coast. Kennedy determined at the outset that this could not stand. After a week of secret deliberations with his most trusted advisers, he announced the discovery to the world and imposed a naval blockade on further shipments of armaments to Cuba. The blockade prevented additional materiel from coming in but did nothing to stop the Soviets from operationalizing the missiles already there. And a tense second week followed during which Kennedy and Soviet Premier Nikita Khrushchev stood "eyeball to eyeball," neither side backing down.

Saturday, October 27, was the day of decision. Thanks to secret tapes Kennedy made of the deliberations, we can be flies on the wall, listening to the members of the president's ad hoc Executive Committee of the National Security Council, or ExComm, debate choices they knew could lead to nuclear Armageddon. At the last minute, the crisis was resolved without war, as Khrushchev accepted a final U.S. offer pledging not to invade Cuba in exchange for the withdrawal of the Soviet missiles.

Graham Allison is Professor of Government and Director of the Belfer Center for Science and International Affairs at Harvard University's Kennedy School of Government.

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Every president since Kennedy has tried to learn from what happened in that confrontation. Ironically, half a century later, with the Soviet Union itself only a distant memory, the lessons of the crisis for current policy have never been greater. Today, it can help U.S. policymakers understand what to do—and what not to do—about Iran, North Korea, China, and presidential decision-making in general.

WHAT WOULD KENNEDY DO?

The current confrontation between the United States and Iran is like a Cuban missile crisis in slow motion. Events are moving, seemingly inexorably, toward a showdown in which the U.S. president will be forced to choose between ordering a military attack and acquiescing to a nuclear-armed Iran.

Those were, in essence, the two options Kennedy's advisers gave him on the final Saturday: attack or accept Soviet nuclear missiles in Cuba. But Kennedy rejected both. Instead of choosing between them, he crafted an imaginative alternative with three components: a public deal in which the United States pledged not to invade Cuba if the Soviet Union withdrew its missiles, a private ultimatum threatening to attack Cuba within 24 hours unless Khrushchev accepted that offer, and a secret sweetener that promised the withdrawal of U.S. missiles from Turkey within six months after the crisis was resolved. The sweetener was kept so secret that even most members of the ExComm deliberating with Kennedy on the final evening were in the dark, unaware that during the dinner break, the president had sent his brother Bobby to deliver this message to the Soviet ambassador.

Looking at the choice between acquiescence and air strikes today, both are unattractive. An Iranian bomb could trigger a cascade of proliferation, making more likely a devastating conflict in one of the world's most economically and strategically critical regions. A preventive air strike could delay Iran's nuclear progress at identified sites but could not erase the knowledge and skills ingrained in many Iranian heads. The truth is that any outcome that stops short of Iran having a nuclear bomb will still leave it with the ability to acquire one down the road, since Iran has already crossed the most significant "redline" of proliferation: mastering the art of enriching uranium and building a bomb covertly. The best hope for a Kennedyesque third option today is a combination of agreed-on constraints on Iran's nuclear activities that would lengthen the fuse on the development of a bomb, transparency measures that would maximize the likelihood of discovering any cheating, unambiguous (perhaps secretly communicated) threats of a regime-changing attack should the agreement be violated, and a pledge not to attack otherwise. Such a combination would keep Iran as far away from a bomb as possible for as long as possible.

The Israeli factor makes the Iranian nuclear situation an even more complex challenge for American policymakers than the Cuban missile crisis was. In 1962, only two players were allowed at the main table. Cuban Prime Minister Fidel Castro sought to become the third, and had he succeeded, the crisis would have become significantly more dangerous. (When Khrushchev announced the withdrawal of the missiles, for example, Castro sent him a blistering message urging him to fire those already

REUTERS / BRIAN SNYDER

Bombs in the backyard: the map of Cuba that John F. Kennedy annotated on October 16, 1962, on display at his presidential library

in Cuba.) But precisely because the White House recognized that the Cubans could become a wild card, it cut them out of the game. Kennedy informed the Kremlin that it would be held accountable for any attack against the United States emanating from Cuba, however it started. His first public announcement said, "It shall be the policy of this Nation to regard any nuclear missile launched from Cuba against any nation in the Western Hemisphere as an attack by the Soviet Union on the United States, requiring a full retaliatory response upon the Soviet Union."

Today, the threat of an Israeli air strike strengthens U.S. President Barack Obama's hand in squeezing Iran to persuade it to make concessions. But the possibility that Israel might actually carry out a unilateral air strike without U.S. approval must make

Washington nervous, since it makes the crisis much harder to manage. Should the domestic situation in Israel reduce the likelihood of an independent Israeli attack, U.S. policymakers will not be unhappy.

CARROTS GO BETTER WITH STICKS

Presented with intelligence showing Soviet missiles in Cuba, Kennedy confronted the Soviet Union publicly and demanded their withdrawal, recognizing that a confrontation risked war. Responding to North Korea's provocations over the years, in contrast, U.S. presidents have spoken loudly but carried a small stick. This is one reason the Cuban crisis was not repeated whereas the North Korean ones have been, repeatedly.

In confronting Khrushchev, Kennedy ordered actions that he knew would increase the risk not only of conventional war but also of nuclear war. He raised the U.S. nuclear alert status to DEFCON 2, aware that this would loosen control over the country's nuclear weapons and increase the likelihood that actions by other individuals could trigger a cascade beyond his control. For example, NATO aircraft with Turkish pilots loaded active nuclear bombs and advanced to an alert status in which individual pilots could have chosen to take off, fly to Moscow, and drop a bomb. Kennedy thought it necessary to increase the risks of war in the short run in order to decrease them over the longer term. He was thinking not only about Cuba but also about the next confrontation, which would most likely come over West Berlin, a free enclave inside the East German puppet state. Success in Cuba would embolden Khrushchev to resolve the Berlin situation on his own terms, forcing Kennedy to choose between accepting Soviet domination of the city and using nuclear weapons to try to save it.

During almost two dozen face-offs with North Korea over the past three decades, meanwhile, U.S. and South Korean policymakers have shied away from such risks, demonstrating that they are deterred by North Korea's threat to destroy Seoul in a second Korean war. North Korean leaders have taken advantage of this fear to develop an effective strategy for blackmail. It begins with an extreme provocation, blatantly crossing a redline that the United States has set out, along with a threat that any response will lead to a "sea of fire." After tensions have risen, a third party, usually China, steps in to propose that "all sides" step back and cool down. Soon thereafter, side payments to North Korea are made by South Korea or Japan or the United States, leading to a resumption of talks. After months of negotiations, Pyongyang agrees to accept still more payments in return for promises to abandon its nuclear program. Some months after that, North Korea violates the agreement, Washington and Seoul express shock, and they vow never to be duped again. And then, after a decent interval, the cycle starts once more.

If the worst consequence of this charade were simply the frustration of being bested by one of the poorest, most isolated states on earth, then the repeated Korean crises would be a sideshow. But for decades, U.S. presidents have declared a nuclear-armed North Korea to be "intolerable" and "unacceptable." They have repeatedly warned Pyongyang that it cannot export nuclear weapons or technology without facing the "gravest consequences." In 2006, for example, President George W. Bush stated that "the transfer of nuclear weapons or material by North Korea to state or nonstate entities would be considered a grave threat to the United States, and North Korea would be held fully accountable for the consequences." North Korea then proceeded to sell Syria a plutonium-producing reactor that, had Israel not destroyed it, would by now have produced enough plutonium for Syria's first nuclear bomb. Washington's response was to ignore the incident and resume talks three weeks later.

One lesson of the Cuban missile crisis is that if you are not prepared to risk war, even nuclear war, an adroit adversary can get you to back down in successive confrontations. If you do have redlines that would lead to war if crossed, then you have to communicate them credibly to your adversary and back them up or risk having your threats dismissed. North Korea's sale of a nuclear bomb to terrorists who then used it against an American target would trigger a devastating American retaliation. But after so many previous redlines have been crossed with impunity, can one be confident that such a message has been received clearly and convincingly? Could North Korea's new leader, Kim Jong Un, and his advisers imagine that they could get away with it?

THE RULES

A similar dynamic may have emerged in the U.S. economic relationship with China. The Republican presidential candidate Mitt Romney has announced that "on day one of my presidency I will designate [China] a currency manipulator and take appropriate counteraction." The response from the political and economic establishment has been a nearly unanimous rejection of such statements as reckless rhetoric that risks a catastrophic trade war. But if there are no circumstances in which Washington is willing to risk a trade confrontation with China, why would China's leaders not simply take a page from North Korea's playbook? Why should they not continue, in Romney's words, "playing the United States like a fiddle and smiling all the way to the bank" by undervaluing their currency, subsidizing domestic producers, protecting their own markets, and stealing intellectual property through cybertheft?

Economics and security are separate realms, but lessons learned in one can be carried over into the other. The defining geopolitical challenge of the next half century will be managing the relationship between the United States as a ruling superpower and China as a rising one. Analyzing the causes of the Peloponnesian War more than two millennia ago, the Greek historian Thucydides argued that "the growth of the power of Athens, and the alarm which this inspired in Sparta, made war inevitable." During the Cuban missile crisis, Kennedy judged that Khrushchev's adventurism violated what Kennedy called the "rules of the precarious status quo" in relations between two nuclear superpowers. These rules had evolved during previous crises, and the resolution of the standoff in Cuba helped restore and reinforce them, allowing the Cold War to end with a whimper rather than a bang.

The United States and China will have to develop their own rules of the road in order to escape Thucydides' trap. These will need to accommodate both parties' core interests, threading a path between conflict and appeasement. Overreacting to perceived threats would be a mistake, but so would ignoring or papering over unacceptable misbehavior in the hope that it will not recur. In 1996, after some steps by Taipei that Beijing considered provocative, China launched a series of missiles over Taiwan, prompting the United States to send two aircraft carrier battle groups into harm's way. The eventual result was a clearer understanding of both sides' redlines on the Taiwan issue and a calmer region. The relationship may need additional such clarifying moments in order to manage a precarious transition as China's continued economic rise and new status are reflected in expanded military capabilities and a more robust foreign posture.

DO PROCESS

A final lesson the crisis teaches has to do not with policy but with process. Unless the commander in chief has sufficient time and privacy to understand a situation, examine the evidence, explore various options, and reflect before choosing among them, poor decisions are likely. In 1962, one of the first questions Kennedy asked on being told of the missile discovery was, How long until this leaks? McGeorge Bundy, his national security adviser, thought it would be a week at most. Acting on that advice, the president took six days in secret to deliberate, changing his mind more than once along the way. As he noted afterward, if he had been forced to make a decision in the first 48 hours, he would have chosen the air strike rather than the naval blockade—something that could have led to nuclear war.

In today's Washington, Kennedy's week of secret deliberations would be regarded as a relic of a bygone era. The half-life of a hot secret is measured not even in days but in hours. Obama learned this painfully during his first year in office, when he found the administration's deliberations over its Afghanistan policy playing out in public, removing much of his flexibility to select or even consider unconventional options. This experience led him to demand a new national security decision-making process led by a new national security adviser. One of the fruits of the revised approach was a much more tightly controlled flow of information, made possible by an unprecedented narrowing of the inner decision-making circle. This allowed discussions over how to handle the discovery of Osama bin Laden's whereabouts to play out slowly and sensibly, with the sexiest story in Washington kept entirely secret for five months, until the administration itself revealed it after the raid on bin Laden's Abbottabad compound.

It has been said that history does not repeat itself, but it does sometimes rhyme. Five decades later, the Cuban missile crisis stands not just as a pivotal moment in the history of the Cold War but also as a guide for how to defuse conflicts, manage great-power relationships, and make sound decisions about foreign policy in general.

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Trading Up in Asia

Why the United States Needs the Trans-Pacific Partnership

Bernard K. Gordon

As the Doha Round of global trade talks nears its 12th year with no end in sight, the negotiations have all but failed. Frustrated with Doha's stagnation and eager to expand trade and secure alliances, the United States has signed a series of bilateral free-trade agreements (FTAs), culminating in last year's pacts with Colombia, Panama, and South Korea. These deals have been generally favorable to the United States; the agreement with South Korea is expected to increase trade between the two countries by billions of dollars and create tens of thousands of jobs for each.

Despite these results, the bilateral approach doesn't offer much promise. The passage of last year's deals ended a five-year standoff between, on the one side, most Republicans in the House of Representatives and pro-trade advocates in the business community and, on the other, House Democrats, most unions, and U.S. car producers, which fought particularly hard against the deal with South Korea due to long-standing restrictions against U.S. car sales there. After a difficult process of lobbying, wrangling, and compromise, the Obama administration has little stomach left to attempt another bilateral deal.

To move its trade agenda forward, the White House has instead embraced a measure between the global Doha Round and the bilateral FTAs: a plurilateral process centered on the Trans-Pacific Partnership. Currently being negotiated by Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam, the TPP will represent one of the world's most expansive trade agreements. And if Canada, Mexico, and especially Japan, all of which expressed interest in joining the negotiations last November, also sign the agreement, the TPP will add billions to the U.S. economy and solidify Washington's political, financial, and military commitment to the Pacific for decades to come. Given the potential windfall, the Obama administration believes that the TPP has a better chance of overcoming domestic opposition than would a Doha agreement or new bilateral deals.

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REUTERS / YURIKO NAKAO

The tradeoff: rallying against the Trans-Pacific Partnership in Tokyo, October 2011

But the TPP faces obstacles. Critics in several nations involved in the negotiations fear that the United States, to protect its businesses and innovators, is trying to use the agreement to impose its own expansive copyright and patent regulations on its trade partners. The relative secrecy surrounding the TPP talks has only deepened those anxieties. Negotiators have allowed interested stakeholders, from industry to the general public, to present information at open TPP sessions, but they have refused to release the texts of the negotiations. If the Obama administration fails to accommodate reservations about intellectual property rights and make the talks more transparent, there is a growing possibility that the TPP could collapse. The resulting failure would represent a major defeat for the Obama administration and undermine its goal of ensuring a long-term presence for the United States in the Asia-Pacific region.

PACIFIC PROMISE

As currently proposed, the TPP would go well beyond categories traditionally included in trade agreements. To begin with, over the next decade, it would gradually remove all tariffs on trade between member states. Following the model of the FTA between the United States and South Korea, it would affect almost all forms of economic interaction among its members, covering policies on investment and government procurement, labor and environmental standards, agriculture, intellectual property, and such new sectors as state-owned and small and medium-sized enterprises, businesses with anywhere between 50 and 500 employees. The United States and its partners hope that the TPP becomes the linchpin of free trade in the Asia-Pacific region.

But the TPP cannot achieve that potential without Japan. The country's GDP is more than double that of all the other TPP nations combined, save for the United

States. Including Japan would mean that the agreement covered 40 percent of global GDP and add $60 billion to the U.S. export market. That is why the Obama administration and the U.S. export sector declared its support for Japan's addition to the TPP when Tokyo indicated its interest in joining. This past December, more than 60 American food and agricultural organizations sent a joint statement to Ron Kirk, the U.S. trade representative, and Tom Vilsack, the U.S. secretary of agriculture, encouraging them "to smooth the way for Japan's full participation." A week later, the Business Roundtable, an association of CEOs, and the U.S. Business Coalition for TPP, a collection of companies in favor of the free-trade agreement, sent similar letters to the U.S. trade representative. In March, Wendy Cutler, an assistant U.S. trade representative, told an audience in Tokyo that "the prospect of Japan joining the TPP . . . is important; it's historic. And frankly it's exciting."

Enticed by that possibility, the Obama administration has made the TPP the keystone of its trade policy, and it is doing all that it can to shape the agreement in the United States' favor. For example, it has emphasized encouraging and protecting the interests of small and medium-sized enterprises. Such businesses generally have little experience in dealing with imports or exports, but Washington hopes to enhance their role in the TPP because they compose the bulk of U.S. employment and so by aiding them, it may be able to build domestic support for trade. Americans have long been indifferent to trade, believing that it benefits mainly foreigners, costs them jobs, and contributes to the U.S. trade deficit, which is seen as inherently negative despite the fact that it has long coincided with American trading and political power.

PROPERTY WRONGS

Even as Washington hopes that its efforts to shape the TPP will sooth the concerns of U.S. industries and unions, it has already rankled public interest groups and the governments of the other countries negotiating the agreement—particularly when it comes to intellectual property.

In February 2011, a draft text regarding intellectual property from the TPP negotiations was leaked online. A number of U.S. and foreign groups, such as Intellectual Property Watch, Public Knowledge, TPP Watch, and Anonymous harshly criticized several measures outlined in the document. In particular, they condemned proposals for criminal enforcement of copyright and patent law that go beyond existing treaties between the various negotiating countries. They also asserted that the TPP would require Internet service providers to identify users and that the United States is unreasonably seeking to impose its own extensive copyright protections on the agreement. U.S. law stipulates that the vast majority of copyrights should end after 70 years, but critics claim, incorrectly, that the Obama administration has called for the TPP to include a 95-year minimum copyright term on some works. The legal scholars Sean Flynn and Jimmy Koo captured critics' fears when they wrote in 2011 that the TPP would create "the most extreme, anti-consumer and anti-development international instrument on intellectual property to date."

The administration has supported these proposals not to harm consumers but to protect American innovators. Intellectual property is already a major source of value for the United States; in 2010, for example, 40 percent of worldwide payments made to intellectual property holders—nearly $100 billion—went to Americans. According to the U.S. Commerce Department, those sums matched the profits earned from the export of aircraft, grain, and business services, three sectors that lead the U.S. trade surplus. And U.S. intellectual property will only become more important in the coming years, as several U.S.-based technological innovations, such as next-generation manufacturing techniques and cutting-edge wireless communications, drive the country's trade. The creators of those technologies will need as much shelter under the TPP as those who currently hold copyrights and patents under U.S. law.

The United States is hardly the only nation affiliated with the TPP that has an interest in securing copyright and patent protections for its citizens. In 2008, for example, Japan led the world in patent applications. And Singapore, with its multibillion-dollar biotechnology investments, also needs to protect its homegrown efforts. In rightly defending the intellectual property rights of American innovators, the United States has also led the way for these other nations. But it is clear that some of those countries do not believe that the United States has their best interests in mind.

FREE TALKS

Despite the broad interest in strong intellectual property protections among some countries negotiating the TPP, some nations continue to charge that the United States is making unreasonable demands. At the 11th TPP negotiating session, in Australia this past March, for example, the

Australian press reported that every TPP negotiating member had rebuffed U.S. proposals regarding intellectual property rights. And in mid-April, several negotiators from Chile put the future of the agreement in doubt when they questioned "whether joining the TPP would be worth its costs if it included additional demands on intellectual property."

Meanwhile, during the same meeting in Australia in March, several organizations condemned the TPP for its potential impact on the availability of cheap drugs. Doctors Without Borders, for example, accused the U.S. government of inserting provisions into the TPP that would interfere with the low-cost delivery of malaria and HIV/AIDS medicines to developing nations. During a previous round of TPP negotiations, the group claimed that the agreement would "extend monopoly protection for old drugs by simply making minor modifications to existing formulas," thereby preventing the introduction of cheaper generic drugs.

The U.S. government has not addressed every accusation leveled against it in the TPP process, but in late February, Demetrios Marantis, the deputy U.S. trade representative, said that his office "strongly disagree[s]" with Doctors Without Borders. He pointed out that the Office of the U.S. Trade Representative had six months earlier established a nine-point TPP program, "Trade Enhancing Access to Medicines," to ensure, in his words, that "generic drugs can get into the market as quickly as possible."

The United States has thus at least begun to address the anxieties of TPP skeptics. But a bigger problem remains. In the age of the Internet, rumors about provisions within the agreement can

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quickly spark worldwide resistance. More transparency and better information about the negotiating process could help counter such rumors. And although the United States and its partners have been receptive to presentations from interested individuals and groups, they have not fully opened the process to the public, fueling legitimate concerns about the ultimate shape of the agreement. In January, for example, Gary Horlick, a prominent trade lawyer and former U.S. trade official, described the TPP process as "the least transparent trade negotiation I have ever seen." Although Kirk, the U.S. trade representative, has called the negotiations "the most open, transparent process ever," his team has presented very little of the U.S. position to the public or even to interested parties not officially involved in TPP discussions.

The issue came to a head this past February, when 23 U.S. organizations representing the libraries of virtually every American research institution and university urged the Obama administration to "mandate public access" to the negotiation draft texts. They argued that the provisions of the TPP "will touch every American family" and that "the enforceability and permanence of such binding rules . . . necessitate maximal transparency." Days later, Senator Ron Wyden (D-Ore.) raised the request in a tense exchange in a hearing with Kirk. Responding to the statement, Kirk said that the Obama administration has "moved to disclose more information sooner than any previous administration."

Unsatisfied with Kirk's response, Wyden introduced legislation that would require the disclosure of any TPP negotiating text "not later than 24 hours after the document is shared with other parties." Wyden's proposal failed to gain traction, but the clamor for more openness in the TPP talks remains, both in the United States and abroad.

A NEW KIND OF DEAL

If the TPP negotiations bear fruit, the United States will become far stronger, economically and politically, over the next generation. A deal that included Japan would essentially result in a free-trade agreement between Washington and Tokyo, representing the long-sought "third opening" of Japan and the affirmation of U.S. power in the Pacific region. More broadly, the United States hopes that the TPP will cement a system of open, interconnected trade based on mutually-agreed-on rules.

That is why the U.S. government hopes to complete the broad outlines of a final deal by the end of the year. But first it must win over domestic opposition to the TPP, especially among the country's automotive, insurance, and agricultural sectors. It also needs to accommodate, wherever possible, the concerns of critics at home and abroad about its intellectual property demands. And it must shed more light on the negotiating process. If the Obama administration fails to take these steps, then it may miss an opportunity to pave the way for a new kind of trade agreement and to reaffirm its economic and political stake in the Pacific.

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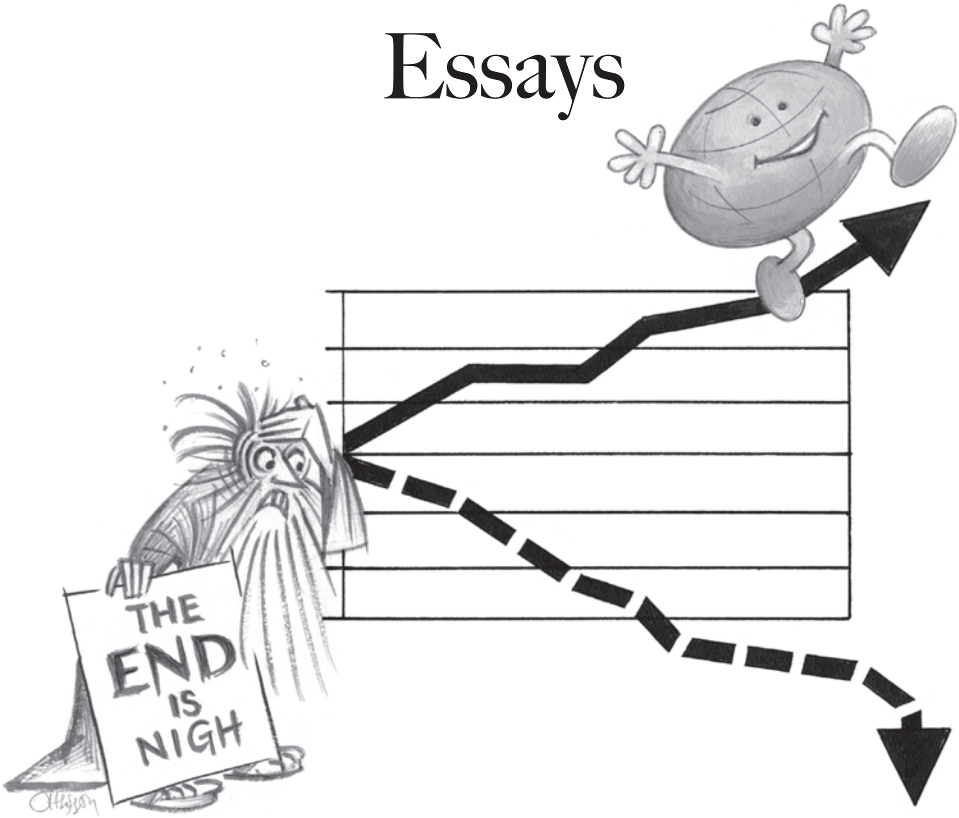
Essays



Forty years ago, the Club of Rome warned humanity that by chasing ever-greater economic growth, it was sentencing itself to catastrophe. The prediction proved to be phenomenally wrong-headed, but its malign effects persist.

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Environmental Alarmism, Then and Now

The Club of Rome's Problem—and Ours

Bjørn Lomborg

Forty years ago, humanity was warned: by chasing ever-greater economic growth, it was sentencing itself to catastrophe. The Club of Rome, a blue-ribbon multinational collection of business leaders, scholars, and government officials brought together by the Italian tycoon Aurelio Peccei, made the case in a slim 1972 volume called *The Limits to Growth*. Based on forecasts from an intricate series of computer models developed by professors at MIT, the book caused a sensation and captured the zeitgeist of the era: the belief that mankind's escalating wants were on a collision course with the world's finite resources and that the crash would be coming soon.

The Limits to Growth was neither the first nor the last publication to claim that the end was nigh due to the disease of modern development, but in many ways, it was the most successful. Although mostly forgotten these days, in its own time, it was a mass phenomenon, selling 12 million copies in more than 30 languages and being dubbed "one of the most important documents of our age" by *The New York Times*. And even though it proved to be phenomenally wrong-headed, it helped set the terms of debate on crucial issues of economic, social, and particularly environmental policy, with malign effects that remain embedded in public consciousness four decades later. It is not

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too great an exaggeration to say that this one book helped send the world down a path of worrying obsessively about misguided remedies for minor problems while ignoring much greater concerns and sensible ways of dealing with them.

THAT '70S SHOW

IF THE 1950s and early 1960s had been a period of technological optimism, by the early 1970s, the mood in the advanced industrial countries had begun to turn grim. The Vietnam War was a disaster, societies were in turmoil, economies were starting to stagnate. Rachel Carson's 1962 book *Silent Spring* had raised concerns about pollution and sparked the modern environmental movement; Paul Ehrlich's 1968 book *The Population Bomb* had argued that humanity was breeding itself into oblivion. The first Earth Day, in 1970, was marked by pessimism about the future, and later that year U.S. President Richard Nixon created the Environmental Protection Agency to address the problem. This was the context in which *The Limits to Growth* resonated; its genius was to bring together in one argument the concerns over pollution, population, and resources, showing how so-called progress would soon run into the natural world's hard constraints.

Founded in 1968 and grandly declaring itself to be "a project on the predicament of mankind," the Club of Rome had set as its mission the gathering of the world's best analytic minds to find a way "to stop the suicidal roller coaster man now rides." This led it to Jay Forrester, an MIT professor who had developed a computer model of global systems, called World2, that allowed one to calculate the impact of changes in several variables on the planet's future. The club appointed a team led by two other MIT researchers, Donella Meadows and Dennis Meadows, to create an updated version, World3, and it was the output of this model that was presented in book form in *The Limits to Growth*. In an age more innocent of and reverential toward computers, the reams of cool printouts gave the book's argument an air of scientific authority and inevitability; hundreds of millions of logical microcircuits seemed to banish any possibility of disagreement.

The model was neither simple nor easy to understand. Even the graphic summary was mind-numbingly convoluted, and the full specifications of the model were published a year later, in a separate book of 637 pages. Still, the general concept was straightforward. The team "examined the five basic factors that determine, and therefore, ultimately limit, growth on this planet—population, agricultural production, natural resources, industrial production, and pollution." Crucially, they assumed that all these factors grow exponentially—a step so important that the whole first chapter of the book is dedicated to explaining it. They asked readers to consider the growth of lilies in a pond:

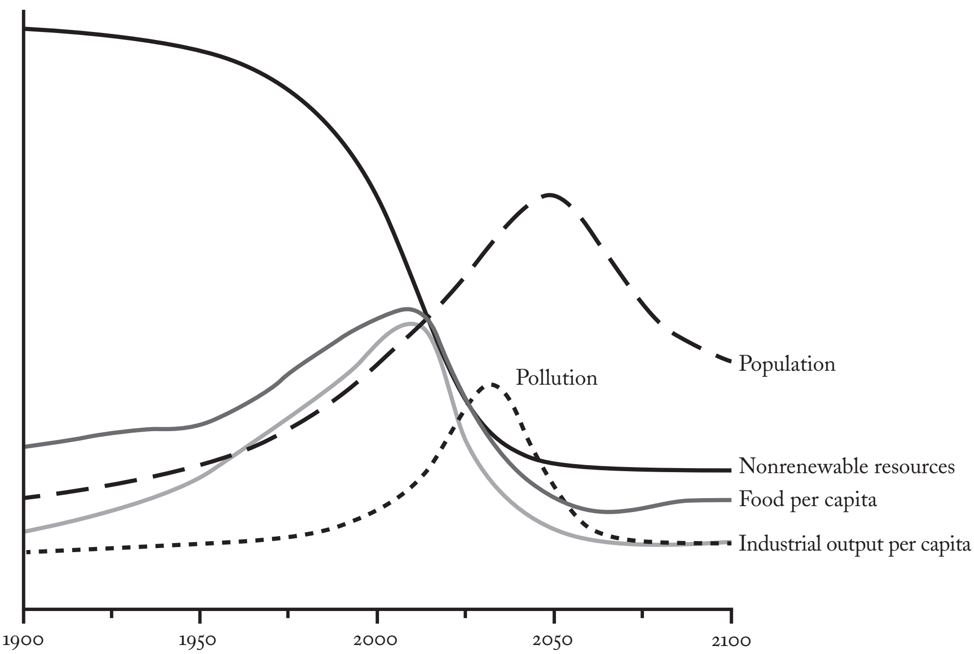
> Suppose you own a pond on which a water lily is growing. The lily plant doubles in size each day. If the lily were allowed to grow unchecked, it would completely cover the pond in 30 days, choking off the other forms of life in the water. For a long time the lily plant seems small, and so you decide not to worry about cutting it back until it covers half the pond. On what day will that be? On the twenty-ninth day, of course. You have one day to save your pond.

In the standard scenario, shown in Figure 1, the authors projected the most likely future that would play out for humanity. With the years 1900 to 2100 on the horizontal axis, the graph shows levels of population, pollution, nonrenewable resources, food, and industrial output on the vertical axis. As death rates drop significantly (because of improvements in medical knowledge) and birthrates drop slightly, population increases. As each person consumes more food and products, meeting the total demand "requires an enormous input of resources." This depletes the resource reserves available, making it ever harder to fulfill next year's resource demands, and eventually leads to the collapse of the economic system. Because of lags in the effects, population keeps growing until a staggering increase in the death rate driven by a lack of food and health services kills off a large part of civilization. The culprit is clear: "The collapse occurs because of nonrenewable resource depletion."

What if the world gets better at conserving resources or finding new ones? It doesn't matter. Run the model again with double or infinite resources, and a collapse still occurs—only now it is caused by pollution. As population and production explode, pollution does, too, crippling food production and killing off three-quarters of the population.

What if pollution is kept in check through technology and policy? It still doesn't matter. Run the model again with unlimited resources and

Figure 1
The Future According to *The Limits to Growth*



SOURCE: Adapted from *The Limits to Growth* (Universe Books, 1972), 124.

curbs on pollution, and the prediction remains bleak. As production soars, the world's population does, too, and with it demands for food. Eventually, the limit of arable land is reached, and industry is starved as capital is diverted into ever-feebler attempts to increase agricultural yields. With food production back at the subsistence level, death rates shoot up, and civilization is again doomed.

The authors concluded that the "basic behavior mode of the world system is exponential growth of population and capital followed by collapse." And "when we introduce technological developments that successfully lift some restraint to growth or avoid some collapse, the system simply grows to another limit, temporarily surpasses it, and falls back."

Unlike previous gloomy forecasts, this one offered no easy way out. Carson wanted to stop the use of pesticides; Ehrlich wanted to slow population growth. But *The Limits to Growth* seemed to show that even if pollution and population growth were controlled, the world's resources would eventually be exhausted and food production would decline back to the subsistence level. The only hope was to stop economic growth itself. The world needed to cut back on its consumption of material goods and emphasize recycling and durability. The only hope to avoid a civilizational collapse, the authors argued, was through draconian policies that forced people to have fewer children and cut back on their consumption, stabilizing society at a level that would be significantly poorer than the present one.

Since most people saw such a solution as wildly unrealistic, the real takeaway was simple: the world was screwed. And so *Time* magazine's 1972 story on *The Limits to Growth* was headlined "The Worst Is Yet to Be?" It read:

> The furnaces of Pittsburgh are cold; the assembly lines of Detroit are still. In Los Angeles, a few gaunt survivors of a plague desperately till freeway center strips, backyards and outlying fields, hoping to raise a subsistence crop. London's offices are dark, its docks deserted. In the farm lands of the Ukraine, abandoned tractors litter the fields: there is no fuel for them. The waters of the Rhine, Nile and Yellow rivers reek with pollutants.
>
> Fantastic? No, only grim inevitability if society continues its present dedication to growth and "progress."

The Limits to Growth got an incredible amount of press attention. *Science* gave it five pages, *Playboy* featured it prominently, and *Life* asked whether anyone wanted to hear "the awful truth." Publications such as *The Economist* and *Newsweek* chimed in with criticisms, but in 1973, the oil embargo made the book look prescient. With the oil shock and soaring commodity prices, it seemed that the world was fast-forwarding to the Club of Rome future.

OOPS

Forty years on, how do the predictions stack up? Defenders like to point out that *The Limits to Growth* carefully hedged its bets, with its authors claiming that they were not presenting "exact predictions" and that they were "deliberately . . . somewhat vague" on time frames because they wanted to focus on the general behavior of the system. But this is sophistry. It was obvious from the way the book was both

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presented and understood that it made a number of clear predictions, including that the world would soon run out many nonrenewable resources.

Assuming exponentially increasing demand, *The Limits to Growth* calculated how soon after 1970 various resources would be exhausted. Their conclusion was that before 2012, the world would run out of aluminum, copper, gold, lead, mercury, molybdenum, natural gas, oil, silver, tin, tungsten, and zinc—12 of the 19 substances they looked at. They were simply and spectacularly wrong.

The amount of resources that can ultimately be generated with the help of human ingenuity is far beyond what human consumption requires.

They singled out mercury, claiming that its known global reserves in 1970 would last for only 13 years of exponential growth in demand, or 41 years if the reserves magically quintupled. They noted that "the prices of those resources with the shortest static reserve indices have already begun to increase. The price of mercury, for example, has gone up 500 percent in the last 20 years." Since then, however, technological innovations have led to the replacement of mercury in batteries, dental fillings, and thermometers. Mercury consumption has collapsed by 98 percent, and by 2000, the price had dropped by 90 percent.

They predicted that gold might run out as early as 1979 and would certainly do so by 1999, based on estimations of 10,980 tons of known reserves in 1970. In the subsequent 40 years, however, 81,410 tons of gold have been mined, and gold reserves are now estimated to be 51,000 tons.

Known reserves of copper in 1970 came to 280 million tons. Since then, about 400 million tons have been produced globally, and world copper reserves are now estimated at almost 700 million tons. Since 1946, new copper reserves have been discovered faster than existing copper reserves have been depleted. And the same goes for the other three most economically important metals: aluminum, iron, and zinc. Despite a 16-fold increase in aluminum consumption since 1950, and despite the fact that the world has consumed four times the 1950 known reserves in the years since, aluminum reserves now could support

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177 years of the present level of consumption. *The Limits to Growth* also worried about running out of oil (in 1990) and natural gas (in 1992). Not only have those not run out, but their reserves, measured in terms of years of current consumption, are larger today than they have ever been since 1970, even though consumption has increased dramatically.

WHAT THEY MISSED

THE BASIC point of *The Limits to Growth* seemed intuitive, even obvious: if ever-more people use ever-more stuff, eventually they will bump into the planet's physical limits. So why did the authors get it wrong? Because they overlooked human ingenuity.

The authors of *The Limits to Growth* named five drivers of the world system, but they left out the most important one of all: people, and their ability to discover and innovate. If you think there are only 280 million tons of copper in the ground, you'll think you'll be out of luck once you have dug it out. But talking about "known reserves" ignores the many ways available resources can be increased.

Prospecting has improved, for example. As recently as 2007, Brazil found the Sugar Loaf oil field off the coast of São Paulo, which could hold 40 billion barrels of oil. Extraction techniques have also been improving. The oil industry now drills deeper into the ground, farther out into the oceans, and higher up in the Arctic. It drills horizontally and uses water and steam to squeeze out more from existing fields.

And shale gas can now be liberated with new fracking technology, which has helped double U.S. potential gas resources within the past six years. This is similar to the technological breakthrough of chemical flotation for copper, which made it possible to mine ores that had previously been thought worthless, and similiar to the Haber-Bosch process, which made nitrogen fixation possible, yielding fertilizers that now help feed a third of humanity.

Aluminum is one of the most common metallic elements on earth. But extracting it was so difficult and expensive that not so long ago, it was more costly than gold or platinum. Napoleon III had bars of aluminum exhibited alongside the French crown jewels, and he gave his honored guests aluminum forks and spoons while lesser visitors had to make do with gold utensils. Only with the invention of the Hall–Héroult process in 1886 did aluminum suddenly drop in price and massively increase in availability. Most often, however, ingenuity manifests itself in much less spectacular ways, generating incremental improvements in existing methods that cut costs and increase productivity.

None of this means that the earth and its resources are not finite. But it does suggest that the amount of resources that can ultimately be generated with the help of human ingenuity is far beyond what human consumption requires. This is true even of energy, which many think of as having peaked. Costs aside, for example, by itself, the Green River Formation in the western United States is estimated to hold about 800 billion barrels of recoverable shale oil, three times the proven oil reserves of Saudi Arabia. And even with current technology, the amount of energy the entire world consumes today could be generated by solar panels covering just 2.6 percent of the area of the Sahara.

Worries about resources are not new. In 1865, the economist William Stanley Jevons wrote a damning book on the United Kingdom's coal use. He saw the Industrial Revolution relentlessly increasing the country's demand for coal, inevitably exhausting its reserves and ending in collapse: "It will appear that there is no reasonable prospect of any release from future want of the main agent of industry." And in 1908, it was Andrew Carnegie who fretted: "I have for many years been impressed with the steady depletion of our iron ore supply. It is staggering to learn that our once-supposed ample supply of rich ores can hardly outlast the generation now appearing, leaving only the leaner ores for the later years of the century." Of course, his generation left behind better technology, so today, exploiting harder-to-get-at, lower-grade ore is easier and cheaper.

Another way to look at the resource question is by examining the prices of various raw materials. The *Limits to Growth* camp argues that as resource constraints get tighter, prices will rise. Mainstream economists, in contrast, are generally confident that human ingenuity will win out and prices will drop. A famous bet between the two groups took place in 1980. The economist Julian Simon, frustrated by incessant claims that the planet would run out of oil, food, and raw materials, offered to bet $10,000 that any given raw material picked by his opponents would drop in price over time. Simon's gauntlet was taken up by the biologist Ehrlich and the physicists John Harte and John Holdren (the latter is now U.S. President Barack Obama's science adviser), saying "the lure of easy money can be irresistible." The three staked their bets on chromium, copper, nickel, tin, and tungsten, and they picked a time frame of ten years. When the decade was up, all five commodities had dropped in price, and they had to concede defeat (although they continued to stand by their original argument). And this was hardly a fluke: commodity prices have generally declined over the last century and a half (see Figure 2).

In short, the authors of *The Limits to Growth* got their most famous factor, resources, spectacularly wrong. Their graphs show resource levels starting high and dropping, but the situation is precisely the opposite: they start low and rise. Reserves of zinc, copper, bauxite (the principal ore of aluminum), oil, and iron have all been going spectacularly up (see Figure 3).

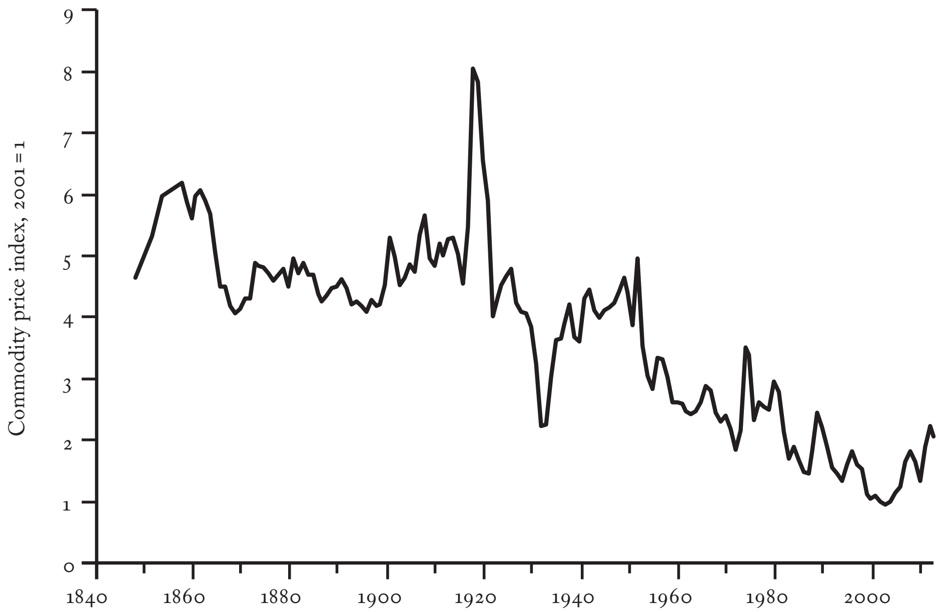
MORE, MORE, MORE

WHAT OF the other factors in the analysis? Their devastating collapse was predicted to occur just after 2010, so it may be too soon for that to be definitively falsified. But the trends to date offer little support for the gloom-and-doom thesis.

The growth in industrial production per capita to date was slightly overestimated by *The Limits to Growth*, possibly because resources have gotten cheaper rather than more expensive and more and more production has moved into the service industry. But mainstream forecasts of long-term GDP growth, a plausible proxy, are positive as far as the eye can see, in sharp contrast to what *The Limits to Growth* expected. The Intergovernmental Panel on Climate Change, for example, the only major group to have set out informed GDP scenarios through 2100, estimates that global GDP per capita will increase 14-fold over the century and increase 24-fold in the developing world.

The amount of population growth was somewhat underestimated, mainly because medical advances have reduced death rates even faster than expected (despite the unforeseen HIV/AIDS crisis). But the

Figure 2
The Decline of Commodity Prices

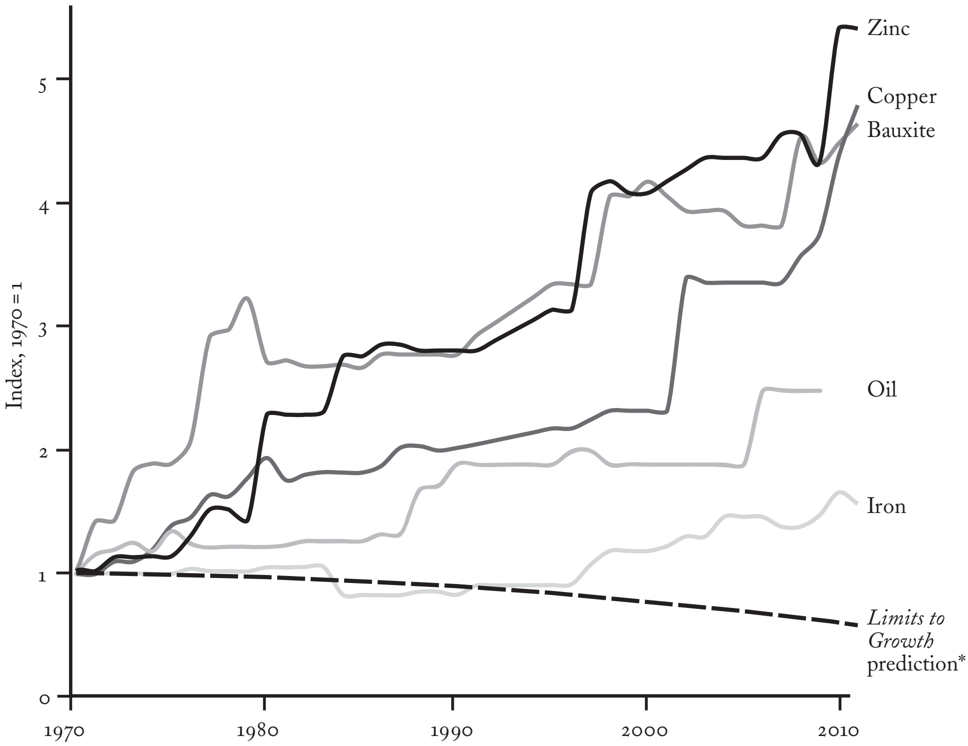


SOURCE: The index was calculated by merging *The Economist*'s industrial commodity price index with the International Monetary Fund's commodity industrial inputs price index and adjusting for inflation.

population growth rate has slowed since the late 1960s, unlike the World3 predictions, because birthrates have fallen along with development.

And predictions about the last two factors, agricultural production and pollution, were way off—which is important because these were the two backup drivers of collapse if a scarcity of resources didn't do the job. Global per capita food consumption was expected to increase by more than 50 percent in the four decades after 1970, peak in 2010, and then drop by 70 percent. Calorie availability has indeed increased, if not quite so dramatically (by somewhat more than 25 percent), but the collapse of the food supply is nowhere in sight, and there is every reason to believe that the gains will continue and be sustainable. Malnutrition has not been vanquished, and the absolute number of people going hungry has in fact increased slightly recently (in part because some crops have been diverted from food to biofuel production due to concerns about global warming). But over the past 40 years, the fraction of the global population that is malnourished has dropped from 35 percent to less than 16 percent,

Figure 3
The Growth of Natural Resource Reserves

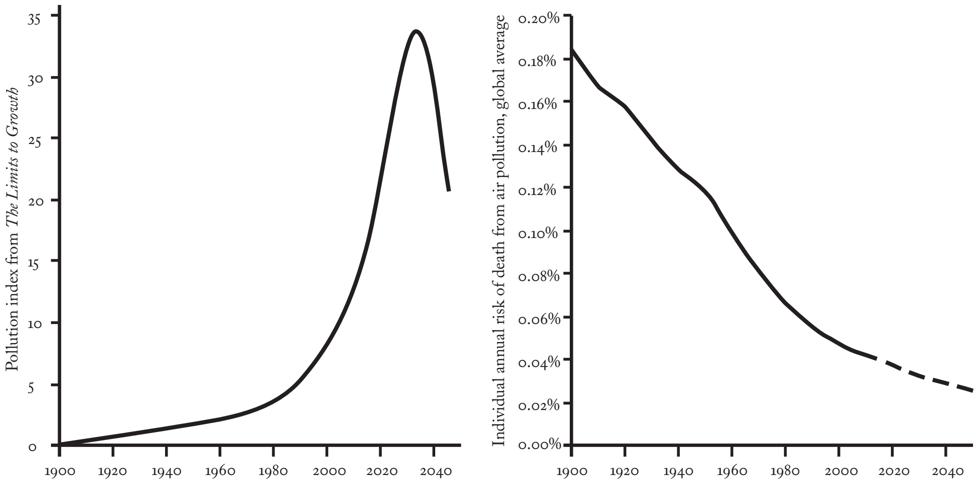


SOURCE: Julian L. Simon, Guenter Weinrauch, and Stephen Moore, "The Reserves of Extracted Resources: Historical Data," *Natural Resources Research* 3, no. 4 (1994): 325–40, updated with data from the U.S. Geological Survey.
* *The Limits to Growth* considered various natural resources all together.

and well over two billion more people have been fed adequately. The world is nowhere close to hitting a ceiling on the usage of arable land; currently, 3.7 billion acres are being used, and 6.7 billion acres are in reserve. Nor have productivity gains maxed out. The latest long-range UN report on food availability, from 2006, estimated that the world would be able to feed ever-more people, each with ever-more calories, out to midcentury.

As for its pollution predictions, *The Limits to Growth* was simultaneously scary and vague. Pollution's increase was supposed to trigger a global collapse if the decrease of food or resources didn't do so first, but how exactly pollution was defined was left unclear. Individual pollutants, such as DDT, lead, mercury, and pesticides, were mentioned, but how those could kill any significant number of people was

Figure 4
Pollution, Prediction Versus Reality



SOURCE: Adapted from *The Limits to Growth*.

SOURCE: Estimates by Guy Hutton in Bjørn Lomborg's forthcoming book *The Twentieth-Century Scorecard* (Cambridge University Press).

unspecified, making it a bit tricky to test the prediction. Air pollution might be considered a good proxy for overall pollution, since it was the biggest environmental killer in the twentieth century and since the Environmental Protection Agency estimates that its regulation produces 86–96 percent of all the social benefits from environmental regulation more generally. In the developing world, outdoor air pollution is indeed rising and killing more people, currently perhaps over 650,000 per year. Indoor air pollution (from using dirty fuels for cooking and heating) kills even more, almost two million per year (although that number has been decreasing slightly).

Even in the developed world, outdoor air pollution is still the biggest environmental killer (at least 250,000 dead each year), although environmental regulation has reduced the death toll dramatically over the past half century. Indoor air pollution in the developed world kills almost nobody. Whereas the Club of Rome imagined an idyllic past with no pollution and happy farmers and a future world choked by fumes and poisons from industrialization run amok, the reality is quite different. Over the last century, pollution has neither spiraled out of control nor gotten more deadly, and the risk of death from air pollution is predicted to continue to drop (see Figure 4).

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WHO CARES?

So THE *Limits to Growth* project got its three main drivers spectacularly wrong and the other two modestly wrong. The world is not running out of resources, not running out of food, and not gagging on pollution, and the world's population and industrial output are rising sustainably. So what? Why should anyone care now? Because the project's analysis sunk deep into popular and elite consciousness and helps shape the way people think about a host of important policy issues today.

Take natural resources and the environment. Ask someone today whether he cares about the environment and what he is doing about it, and you are likely to hear something like, "Of course I care; I recycle." The caring part is all to the good and a major positive change from a few decades ago. But the recycling part is often just a feel-good gesture that provides little environmental benefit at a significant cost.

Recycling is not a new idea. It made sense for companies and people to recycle precious commodities long before the *Limits to Growth* project came along, and they did so. Copper, for example, was recycled at a rate of about 45 percent throughout most of the past century, for purely practical, and not environmental, reasons. Why wasn't the rate higher? Because some used copper comes in great bundles and is easy to reprocess, making the recycling effort worthwhile, whereas other used copper is dispersed in small, hard-to-get-at pieces, making recycling inefficient.

When people think of recycling today, however, they often think of paper. This, too, is not a new idea; trash has been a resource for centuries, with the extent of its culling and reprocessing depending on the current market prices of the goods in question. Throughout the past century, about 30–50 percent of all paper was recycled, before the advent of public information campaigns or peer pressure.

But now, in the wake of jeremiads such as *The Limits to Growth*, recycling tends to be seen less as an economic question and more as a matter of personal and civic virtue. Children learn to "reduce, reuse, and recycle" as part of their official moral education. They are told that by doing so, they are "saving trees." Yet in fact, well-managed

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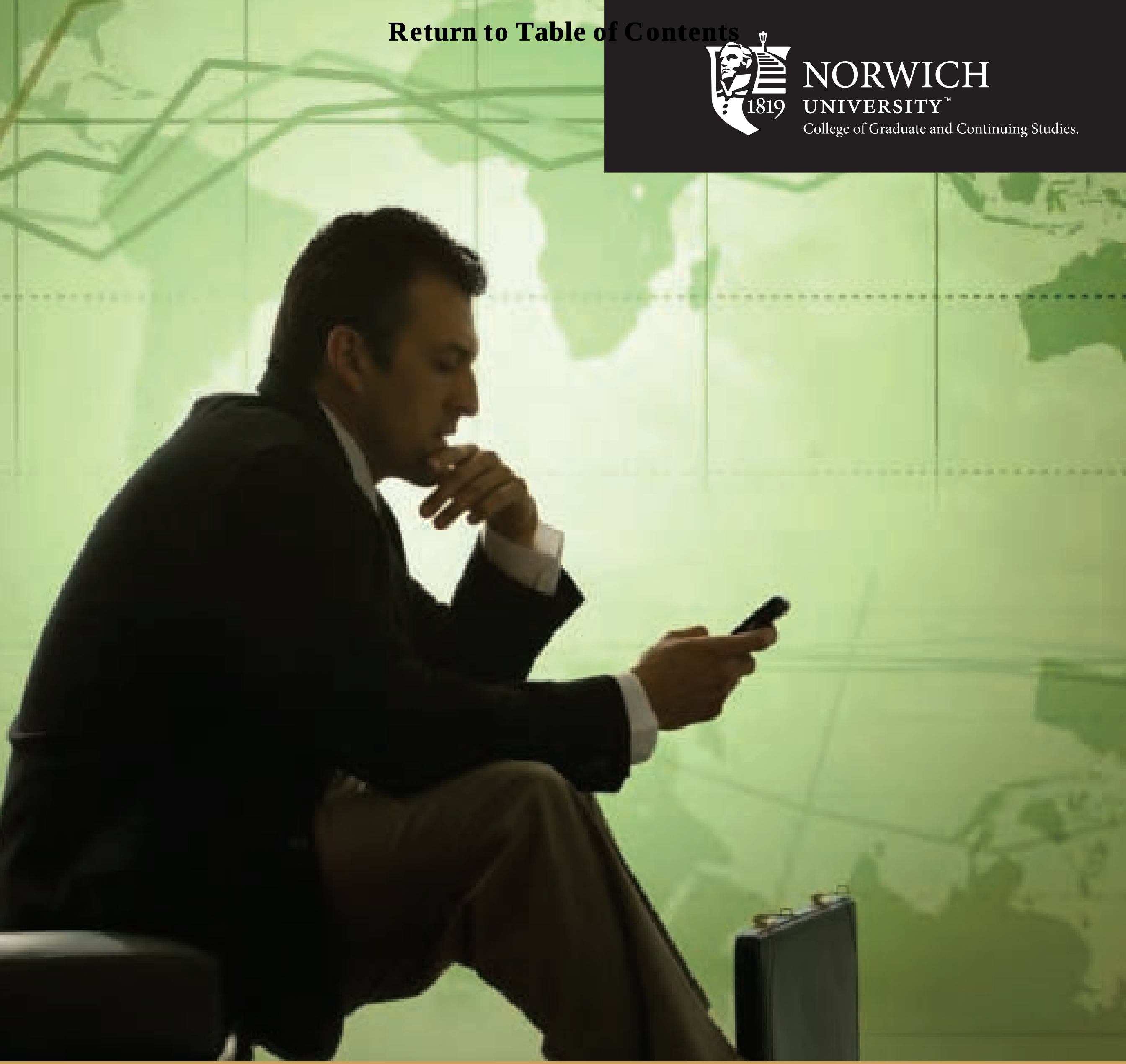

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forests for paper production in countries such as Finland and Sweden are continuously replanted, yielding not fewer trees but more. Artificially encouraging the recycling of paper lowers the payoff for such forests, making them more likely to be converted into agricultural or urban land. Nor does recycling paper save the rain forests, since it is not made with tropical timber. Nor does recycling paper address a problem of municipal waste: incineration can recapture much of the energy from used paper with virtually no waste problems, and even without incineration, all U.S. municipal waste from the entire twenty-first century could be contained in a single square dump that was 18 miles on each side and 100 feet high.

The effort to recycle substances such as paper and glass, however, consumes money and manpower, which are also scarce resources and could be expended on other socially valuable efforts, such as building roads or staffing hospitals. And so as the price of paper has declined and the value of human work has risen dramatically, today we pay tribute to the pagan god of token environmentalism by spending countless hours sorting, storing, and collecting used paper, which, when combined with government subsidies, yields slightly lower-quality paper in order to secure a resource that was never threatened in the first place.

Today, we pay tribute to the pagan god of token environmentalism by spending countless hours recycling paper.

What is true about resources, moreover, is also true about two of the other supposed drivers of collapse, population and pollution. Spurred by analyses such as that presented in *The Limits to Growth*, much time and effort over the years has been diverted from useful activities to dubious or even pernicious ones. The specter of an ever-increasing population chewing up ever-dwindling resources, for example, helped scare people into draconian responses such as the one-child policy in China and forced sterilizations in India. These actions were not warranted, and other policies could have done a better job, at lower cost and with more preferable outcomes. Increasing education for women, reducing poverty, and ensuring higher economic growth, for example, would have reduced family sizes with many more ancillary benefits.

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Scary scenarios of pollutants such as DDT and pesticides killing off humanity, meanwhile, have led to attempts to ban them and to the widespread growth of the organic-food movement. But although it is true that the use of such products has costs—in large doses, DDT is likely harmful to birds, and even well-regulated pesticides probably cause about 20 deaths each year in the United States—it also yields substantial benefits. DDT is the cheapest and one of the most effective ways to tackle malaria. The ban on DDT in much of the developed world (which in itself might have made sense) led to pressures from non-governmental organizations and aid agencies for bans elsewhere, and these campaigns, now abandoned by the World Health Organization, have likely contributed to several million unnecessary deaths.

In the developed world, the push to eliminate pesticides has ignored their immense benefits. Going completely organic would increase the cost of agricultural production in the United States by more than $100 billion annually. Since organic farming is at least 16 percent less efficient, maintaining the same output would require devoting an additional 50 million acres to farmland—an area larger than the state of California. And since eating fruits and vegetables helps reduce cancer, and since organic farming would lead to higher prices and thus lower consumption, a shift to purely organic farming would cause tens of thousands of additional cancer deaths.

Paying more than $100 billion, massively increasing the amount of the country's farmland, and killing tens of thousands of people seems a poor return for avoiding the dozens of American deaths due to pesticides annually. Yet this is how the *Limits to Growth* project and similar efforts have taught the world to think, making people worry imprudently about marginal issues while ignoring sensible actions for addressing major ones.

DO THE RIGHT THING

THE PROBLEMATIC legacy of *The Limits to Growth* is not just the unnecessary recycling of paper and a fascination with organic produce. More generally, the book and its epigones have promulgated worst-case environmental-disaster scenarios that make rational policy-making difficult.

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Alarmism creates a lot of attention, but it rarely leads to intelligent solutions for real problems, something that requires calm consideration of the costs and benefits of various courses of action. By implying that the problems the world faces are so great and so urgent that they can be dealt with only by massive immediate interventions and sacrifices—which are usually politically impossible and hence never put into practice—environmental alarmism actually squelches debate over the more realistic interventions that could make a major difference.

Poverty is one of the greatest of all killers, and economic growth is one of the best ways to prevent it.

One of the most insightful original reviews of *The Limits to Growth*, by the economist Carl Kaysen in these pages, actually, was cleverly titled "The Computer That Printed Out W*O*L*F*." After mercilessly picking apart the flaws in the book's argument, it noted that in the fable of the boy who cried "wolf," "there were in the end, real wolves," just as "in the world today, there are real and difficult problems attendant on economic growth as we now experience it." The challenge is differentiating between false alarms and real ones and then coming up with prudent efforts at risk management.

Take pollution. Thanks to works such as *Silent Spring* and *The Limits to Growth*, worrying about pesticides captured much of the early environmental debate and virtually monopolized the policy agenda of the Environmental Protection Agency during the 1970s. Unfortunately, this did nothing to address the real wolf of indoor and outdoor air pollution. The latter may still kill some 135,000 Americans each year—more than four times the number who die in traffic accidents. But because it is less interesting and has no celebrity backers, it remains an ignored wolf—as is indoor pollution, which kills about two million people annually in the developing world.

But the Club of Rome did not just distract the world's attention. It actually directed that attention in precisely the wrong direction, identifying economic growth as humanity's core problem. Such a diagnosis can be entertained only by rich, comfortable residents of highly developed countries, who already have easy access to the basic necessities of life. In contrast, when a desperately poor woman in the developing world cannot get enough food for her family, the reason is not that the world cannot produce it but that she cannot afford it. And when her children get sick from breathing in fumes from burning dung, the answer is not for her to use environmentally certified dung but to raise her living standards enough to buy cleaner and more convenient fuels. Poverty, in short, is one of the greatest of all killers, and economic growth is one of the best ways to prevent it. Easily curable diseases still kill 15 million people every year; what would save them is the creation of richer societies that could afford to treat, survey, and prevent new outbreaks.

By recommending that the world limit development in order to head off a supposed future collapse, *The Limits to Growth* led people to question the value of pursuing economic growth. Had its suggestions been followed over subsequent decades, there would have been no "rise of the rest"; no half a billion Chinese, Indians, and others lifted out of grinding poverty; no massive improvements in health, longevity, and quality of life for billions of people across the planet. Even though the Club of Rome's general school of thought has mercifully gone the way of other 1970s-era relics, such as mood rings and pet rocks, the effects linger in popular and elite consciousness. People get more excited about the fate of the Kyoto Protocol than the fate of the Doha Round—even though an expansion of trade would do hundreds or thousands of times as much good as feeble limitations of emissions, and do so more cheaply, quickly, and efficiently for the very people who are most vulnerable. It is past time to acknowledge that economic growth, for lack of a better word, is good, and that what the world needs is more of it, not less.

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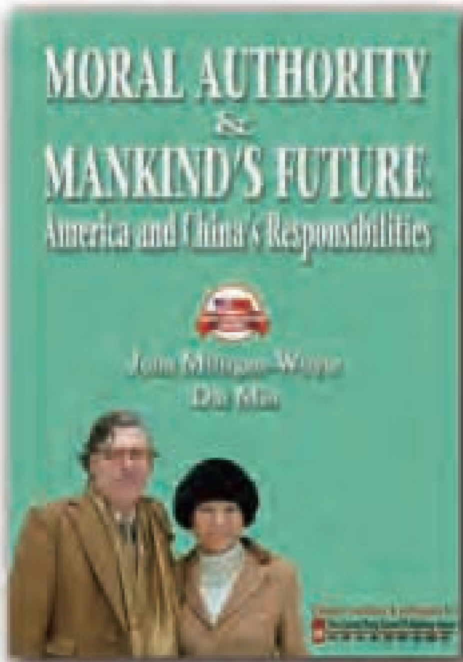
What is in the two books that the China Central Party School Publishing House selected to translate and publish inside China?

2011 • 537pp • 7×10 • $24.95 • 978-0-9822803-7-9



2012 • 486pp • 7×10 • $24.95 • 978-146839928

WANG GUANGYA, China's former Deputy Foreign Minister and UN ambassador, says: "These unique books fill important communication and perception gaps in China and America's relationship. John Milligan-Whyte is the missing man needed to articulate and integrate American and Chinese perspectives."

ZHOU WENZHONG, Secretary-General of the Boao Forum and China's former Ambassador to the US says: "John Milligan-Whyte, as an American is able to speak freely and persuasively from both American and Chinese perspectives and address issues that others do not address in the same way or as effectively."

SEYMOUR TOPPING, member of the Council on Foreign Relations says: "America and China becoming partners must and will become US policy toward China. No one on the Council on Foreign Relations could have written these books because we all come from the same background and think the same conventional way."

PEOPLES DAILY says: "John Milligan-Whyte is called the 'new Edgar Snow' and the '21st century Kissinger' and is the only non-Chinese to be elected the winner of the Social Responsibility Award from the China Business Leaders Summit."

TOM LANTOS, former Chairman of the U.S. Congress Foreign Affairs Committee says: "I absolutely agree with the game-theory based thesis of these books that neither America nor China can succeed in the 21st century if either do not ensure it and the other are successful."

PROFESSOR Xi RUNCHANG of the Chinese Academy of Social Sciences says: "These breakthrough books create a New School of US-China Relations. They are well thought out and researched books, presenting a win-win mindset and strategies providing a complete answer for America and China's success in the 21st century. American foreign affairs or economic scholars have been unable to transcend their zero sum game mindset and strategies on US-China relations."

CHINA DAILY says: "A new school of US-China relations provides a complete answer for America and China's success in the 21st century. The Center for America China Partnership is the first US think tank that combines and integrates American and Chinese perspectives."

HON. MAURICE STRONG, former UN Under-Secretary General and Secretary General of the 1992 UN Earth Summit, says: "Works of genius, a masterpiece."

Center *for* America-China Partnership

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China-US Grand Strategy Proposal

A China-US Grand Strategy Agreement designed for the current instead of the last century's realities must align the world's two largest economies' economic and national security to facilitate global economic growth and geopolitical security. It was drafted by John Milligan-Whyte, Dai Min and Dr. Thomas P.M. Barnett of the Center for America China Partnership with input from China's former Minister of Foreign Affairs and UN and US ambassadors, former Deputy Chief of the General Staff of the PLA, former Military Attaché to North Korea and Israel, former Vice Minister of Commerce, and General Secretary of the Boao Forum. Film of the support for the Agreement from the Institute of International Strategic Studies of China's Central Party School, Chinese People's Institute of Foreign Affairs, China Center for International Economic Exchanges, China Institute For International Strategic Studies, China Foundation for International & Strategic Studies, and China Institutes of Contemporary International Relations in China's State Council are posted at www.ChinaSmartMagazine.com. The text of the Grand Strategy Agreement states:

"U.S.-P.R.C. Presidential Executive Agreement For Peaceful Coexistence & Economically Balanced Relationship

Presidents of U.S. and P.R.C. sign an executive agreement containing each nation's pledge that:

1. U.S. and P.R.C will never go to war with the other;
2. Each will respect the other's sovereignty and distinct political and economic systems;
3. U.S. pledge to eschew regime change in P.R.C. and ofnon- interference in its internal affairs;
4. P.R.C pledges to continue its economic, social, and political reforms.

Taiwan

Pledged demilitarization of Taiwan situation, to include:

i. Informal U.S. moratorium on arms transfers to Taiwan;
ii. U.S. President's adherence to defense requirements of Taiwan Relations Act of 1979 is achieved through the following alternative means;
iii. P.R.C. reduction of strike forces arrayed against Island;
iv. U.S. reduction of strike forces arrayed against P.R.C. Mainland; and
v. Negotiation and promulgation of confidence building measures between U.S. and P.R.C. militaries.

North Korea

Pledged de-escalation of strategic uncertainty surrounding North Korea nuclear program, to include:

i. U.S. eschews regime change in North Korea;
ii. P.R.C. encourages North Korea to adopt economic reform policies to be implemented on terms appropriate to North Korea's own situation;
iii. North Korea agrees to terminate nuclear program and resume economic cooperation with South Korea; and
iv. U.S. and P.R.C. support peaceful reunification of North and South Korea on terms and timetable determined by North and South Korea.

Iran

Pledged management of relations with Iran to include:

i. U.S. eschews regime change in Iran;
ii. P.R.C to support Iran's peaceful development of its nuclear energy program;
iii. Iran to willingly submit to regular international inspections of its nuclear energy program; and
iv. U.S. to eliminate trade restrictions and promote trade with Iran.

South China Sea & East China Sea

Pledged management of sovereignty disputes to be solved peacefully and bilaterally, to include:

i. P.R.C. sets up multilateral South China Sea Regional Joint Development Corporation with neighboring claimant states; and
ii. P.R.C. pledges to negotiate resolution of all such disputes on the basis of the P.R.C.-ASEAN agreement entitled, "The 2002 Declaration on the Conduct of Parties in the South China Sea."

ASEAN Economic and Peacekeeping Collaboration

U.S. and P.R.C pledge:

i. Harmonization and coordination of their respective roles in regional economic and security forums;
ii. Pursuit of peaceful coexistence in their bilateral relations with other Asian nations; and

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China-US Grand Strategy Proposal

ASEAN nations in their multilateral relations within ASEAN, APEC, etc.

Military-to-Military Ties

U.S and P.R.C. pledge to cooperate on international and non-traditional security issues, to include:

i. Lifting of U.S. embargo on military sales to China;
ii. Regular scheduling of joint naval exercises in Asian waters, with standing invitations to other regional navies;
iii. Permanent expansion of officer-exchang program;
iv. Creation of joint peacekeeping force/command in conjunction with other countries within the UN Security Council framework;
v. Expansion of U.S.-P.R.C Maritime and Military Security Agreement to include frequency of U.S. close-in reconnaissance; and
vi. Establishment of joint commission collaborating annually on U.S. and P.R.C. technology sharing and transparency of budget expenditures.

Existing and Future International Institutions and Issues

U.S. and P.R.C. pledge to support continued reform of existing institutions (e.g., UN, IMF, World Bank, WTO, G20) to better reflect the evolving global economy and international issues, to include climate change, Doha Agreement, etc.

Strategic and Economic Dialogue (SED)

To implement the new collaborations listed above:

i. SED becomes permanently sitting commission for continuous senior-level communications and collaboration on economic and security issues; and
ii. SED reviews all existing tariffs, WTO complaints, and other trade and economic disputes and issues.

P.R.C. Investment into U.S. Economy

P.R.C. pledges to invest up to 1 trillion USD directly into U.S. companies at direction of U.S. President in exchange for:

i. U.S. removes trade restrictions and high-technology export bans with P.R.C.;
ii. P.R.C. commits to purchase sufficient amount of U.S. goods/services to balance bilateral trade on annual basis;
iii. P.R.C. companies' access to U.S. market made equal to that of U.S. companies access to P.R.C. market;
iv. Ownership limit for new P.R.C. investments in U.S.-owned or controlled corporations limited to 45 percent of shares, with additional 10 percent reserved for preferred equity/pension funds on a case-by-case basis and final 45 percent remaining with non-P.R.C. ownership;
v. Ownership limit for new U.S. companies' investments in P.R.C. limited to 45 percent with additional 10 percent reserved for preferred equity/pension funds on a case-by-case basis and final 45 percent remaining with P.R.C. ownership;
vi. U.S. and P.R.C. to facilitate global joint ventures between U.S. and P.R.C. companies, with initial example to involve major U.S. firm, possibly General Motors; and
vii. U.S. and P.R.C. to collaborate in SED on goal of full employment throughout each economy, targeting in particular areas suffering inordinate unemployment or needing special economic growth arrangements.

Other Areas of Bilateral and Multilateral Cooperation

P.R.C. and U.S. to collaborate:

i. Implementing principles in the Preamble, Article 1 of the UN Charter;
ii. Rehabilitation of failing and failed states seeking assistance;
iii. Combining U.S. and P.R.C. markets, technology and financing to ensure affordable costs for all nations of effective pollution remediation and sustainable energy and financing of globally needed technology; and
iv. Joint space exploration with other UN member states.

No Creation or Operation of "G2" Arrangement

Nothing in this Executive Agreement constitutes, is intended to, nor permits the creation or operation of a "G2", and instead this Agreement:

i. Establishes an improved framework of collabora - tion among the U.S., P.R.C. and other UN member states;
ii. Neither seeks nor infers any formal alliance between the U.S. and P.R.C.; and
iii. Creates a new U.S. and P.R.C. partnership commitment to the Principles of PeacefulCoexistence in the UN Charter.

Mutually agreed on the ____ day of _________ 2012.

President Barack Obama   President Hu Jintao

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The Right Way Out of Afghanistan

Leaving Behind a State That Can Govern

Stephen Hadley and John Podesta

The signing in May of a strategic partnership agreement between the United States and Afghanistan came at a tense time in the Afghan war. As NATO and the International Security Assistance Force work to transfer security responsibility for much of the country to the Afghan government, the agreement establishes the contours of a long-term relationship and a framework for future cooperation. But it notably leaves out details on the levels of forces and funding the United States will commit to Afghanistan after 2014. Meanwhile, insurgents continue to mount frequent attacks against high-visibility targets throughout the country and have assassinated international personnel and Afghans with ties to the government of President Hamid Karzai. Trust between the U.S. and Afghan governments has eroded as a result of Afghan civilian casualties, attacks on U.S. and other international forces by Afghan troops, and blunders by U.S. military personnel, including the burning of Korans at an air base.

Although the Obama administration has reached out to the Taliban and Pakistan in the hopes of achieving a negotiated settlement, the U.S. transition strategy still prioritizes military activity over diplomacy.

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As Washington draws down its troops, it has armed both regular and irregular Afghan forces and targeted insurgent commanders and other extremists in Afghanistan and Pakistan. The military campaign has had significant successes, particularly in dismantling al Qaeda and largely destroying its senior leadership in the region, achieving a primary U.S. national security objective. It has also weakened Taliban insurgents and restored Afghan government control over significant portions of southern Afghanistan.

But in its focus on security, the United States has not sufficiently used its influence to pressure the Karzai government to forge a legitimate Afghan state that is governed by the rule of law, stabilized by checks and balances between the branches of government, and upheld by relatively free and fair elections. This has left the future of Afghanistan and of broader U.S. interests in the region in doubt. A transition that focuses primarily on Afghan security force levels and capabilities cannot adequately address the flaws in governance that have alienated ordinary Afghans from the Karzai administration and fueled the insurgency. Nor can an exclusively military strategy calm regional hostility or eliminate insurgent threats entirely. In addition, the dependency of the Afghan government and its security forces on high levels of international assistance for the foreseeable future, especially in a time of global austerity, threatens to undermine the current strategy.

An exclusively military strategy cannot calm regional hostility or eliminate insurgent threats entirely.

Meanwhile, Afghanistan will face a rocky political transition, especially if the United States and its allies do not devote to that transition the same degree of attention that they have given the security transition. Karzai is required by the Afghan constitution to step down following the presidential elections in 2014. This electoral process should ideally facilitate the creation of a more inclusive, legitimate political system. Yet political parties in the country remain weak and marginalized, the voter registry is inadequate, and the country's electoral institutions lack guarantees of independence. Policymakers have not prepared for the real possibility of a repeat of the fraud-ridden and destabilizing Afghan presidential and parliamentary elections of 2009 and 2010.

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U.S. ARMY / ANDRYA HILL

Taking off: U.S. paratroopers in Paktika, Afghanistan, October 2009

To make matters worse, distrust between the United States and Pakistan has spiked. The countries hold opposing visions for Afghanistan's political makeup and position within the regional security balance. The United States' objective remains a relatively stable Afghanistan that does not once again become a sanctuary for transnational terrorist groups or destabilize nuclear-armed Pakistan. Pakistan, however, seeks to maximize its own influence in Afghanistan, and minimize India's, through support for the Pashtun-dominated Taliban. Although both the United States and Pakistan have indicated a desire for rapprochement, their disagreements continue to complicate efforts to find common ground even on issues on which the countries' interests have the potential to align, such as counterterrorism and nuclear security.

Guarding against instability in Afghanistan will require the presence of some U.S. forces there beyond 2014. But sustaining the current level of foreign military involvement indefinitely is not an option. Although American and allied soldiers have acted with bravery and professionalism over the past decade, Afghan and Pakistani leaders must take responsibility for their own countries' security and prosperity.

In this regard, the United States needs to synchronize the reduction of its military and financial investment in Afghanistan with efforts to resolve the internal political dimensions of the Afghan conflict. An uncoordinated withdrawal would risk the collapse of the weak Afghan security forces and, in turn, the weak Afghan state. Such a breakdown could spark renewed bloodshed and large-scale population displacement inside Afghanistan and into neighboring countries and leave swaths of territory unprotected against militants and terrorists, thereby undermining U.S. strategic interests in the region.

STATE OF CRISIS

THE INTERNATIONAL community has staked its transition strategy in Afghanistan on the strength of the Afghan security forces and the government in Kabul. But that government is deeply flawed and, should the world stop compensating for its deficiencies, in danger of imploding. The constitutional system, which vests great power in the hands of the executive without real checks and balances, lends itself to abuses of authority. Officials often use formal state institutions to support their patronage networks, fueling high levels of corruption, cronyism, and nepotism on the national and local levels.

Karzai has failed to use his position to advance a reform agenda or to support merit-based appointments of officials. Instead, his administration has actively opposed measures that would have promoted greater accountability and empowered other branches of government. The weakness of the parliament, the judiciary, and local governmental bodies means that there are few channels, outside the presidential palace, for Afghans to influence decision-making or hold leaders accountable.

The absence of transparent and effective systems of justice and law has provided Taliban insurgents with an opening to mobilize domestic opposition to the Afghan government. The ability of the Taliban to organize marginalized and disaffected communities contributes as much to the Taliban's resiliency as do their safe havens across the border in Pakistan. Furthermore, the centralized, winner-take-all political system complicates efforts to reconcile Afghanistan's competing constituencies. Opponents who might

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otherwise opt to share power have few guarantees that those with authority will not abuse it.

Unlike other centralized political systems, the Afghan government actually has very limited means to support and assert itself. Although the Afghan economy has grown by double digits since 2002 and the government has improved its ability to collect taxes and customs revenues, Kabul still depends on financial assistance from the international community to fund the majority of its operations, salaries, and services. The cost of fielding the large Afghan military and police forces established by NATO trainers over the past several years eclipses the country's entire national budget.

The United States and other international donors will not sustain their current levels of assistance indefinitely. The dismal state of the global economy, attacks by Afghans against foreign personnel, and disputes between the United States and Afghanistan make it extremely risky for Kabul to rely so heavily on external aid. The Afghan government must expand its base of domestic support, both politically and financially. Crafting a more stable political system will require a combination of reforms that address the lack of accountability and undue centralization of the executive. To move beyond years of unrest, the government must also seek a political settlement with nonviolent opposition groups and other elements of Afghan society, as well as with the armed insurgents.

A SYNCHRONIZED STRATEGY

Left unaddressed, the major weaknesses in Afghanistan's political structure will reduce the likelihood of a stable and secure Afghan state after 2014. The United States needs a more robust political strategy to actively support the transition, one that presses for a more legitimate Afghan government, a political settlement among the broad range of Afghan actors outside the current system (including those Taliban elements willing to participate), and a regional settlement that involves Pakistan.

First, in order to help bring about a more legitimate Afghan government, the United States and its partners must ensure a smooth presidential transition in 2014, when Karzai is constitutionally required to step down. In the short term, the United States will need to make clear, as it has to date, that its pledges of support under the strategic partnership agreement are conditioned on Karzai's ceding power to a legitimately elected successor. Karzai may reasonably expect assurances that when he departs, he and his family will be kept safe, his core allies and constituents will not be shut out of the government, and he can leave office with honor. Offering him a senior position either in Afghanistan or in an international institution after his term expires could help assuage his fears of marginalization and open the door for other political actors to emerge.

Facilitating a democratic transition of power that truly broadens political participation also requires the international community to press for badly needed electoral reforms well in advance of the presidential and parliamentary elections in 2014 and 2015. These should include the establishment of a credible national voter registry (or an effective substitute) and a commitment to the independence and transparency of the Independent Election Commission and the Electoral Complaints Commission, Afghanistan's two main electoral bodies. Burdensome party-registration processes and the single nontransferable voting system, which offers voters only one choice among potentially hundreds of candidates for multiple parliamentary seats, have disempowered voters in previous elections and have also hamstrung the formation of political parties that could more effectively represent the interests of Afghanistan's fractious political landscape. As the principal financial and logistical contributors to Afghanistan's recent elections, the United States, the United Nations, and other international donors must demand that the 2014 and 2015 elections meet higher standards than previous contests have while, of course, leaving the actual choice of leaders to the Afghan people.

Washington must ensure that the Afghan state does not collapse as foreign aid drops and the economy weakens.

Over the long term, the United States needs to use its diplomatic muscle to support the creation of stronger checks and balances and other reforms that would allow opposition groups to participate on a level playing field. This will require holding the Afghan government

HANOI | INVESTMENT

Vietnam's entry into the World Trade Organization in 2007 was arguably the most significant event in the country's recent economic history. The rest of the world praised the development, highly confident that it would eventually open up the market to foreign capital and create a fair and attractive investment environment.

In line with conditions tied to WTO membership, the National Assembly passed the Act of Investment in 2005, called "an important milestone" by Dr. Do Nhat Hoang, director-general of the Foreign Investment Agency.

From 2006 (when the law came into effect) to 2008, foreign direct investment reached a record high of $71.3 billion.

"Our government has taken bold actions to stabilize the country's macroeconomy while maintaining reasonable growth and social security. We focus our efforts on creating breakthroughs in three areas: the institutionalization the socialist-oriented market economy, human resource development, and the development of a unified system of infrastructure," said Foreign Minister Pham Binh Minh.

While the global economic crisis of 2008 and 2009 affected Vietnam's economy, the country has bounced back and regained the interest of foreign investors, especially as a manufacturing base, according to Dr. Hoang.

Manufacturing remains the largest source of FDI in Vietnam, comprising about 48 percent, according to Dr. Hoang.

The strength of manufacturing activities is also reflected in the increase of patent applications in the country.

For Tran Tan Minh, managing partner of Detech & Associates, one of Hanoi's leading intellectual property law firms, there has been a 20 percent year-on-year growth of IP applications in the country, showing that many companies are prepared to begin manufacturing operations in Vietnam soon.

"Most of these applications are coming from outside of Vietnam, and most of our firm's foreign clients are concerned with patents for inventions and designs," said Minh.

Hanoi is well positioned to be Vietnam's major gateway for foreign investment.

Because Detech & Associates hires highly qualified engineers, as well as lawyers, the firm has a strategic advantage in the field of intellectual property.

"The number of patents pouring into a country is always a reliable indicator of a market's attractiveness to foreign manufacturers. At Detech & Associates, we are proud to help in the inflow of capital by getting an ample number of engineers and scientists to handle those patents," Minh said.

As the country's capital city, Hanoi has become an important first stop for all interested investors into Vietnam.

"The success of foreign investors is our own success, and we have been working hard to make the ground as open, transparent and even as possible for all players in the economy. I believe foreign investors have a great deal of opportunities for success in Vietnam," the minister said.

Global quality and style – always in fashion

Garment 10 Corporation (Garco10) has been the leading producer of formal businesswear in the country, providing top-quality garments to many prominent brands in the global clothing and fashion industry.

The oldest garment company in Vietnam, founded in 1946, Garco10 began making garments for foreign partners in 1992 and has expanded its clientele by always delivering superior quality garments on time.

"Through the years, we've maintained our reputation by delivering precisely what we've promised our partners," says General Director Madame Huyen Nguyen Thi Thanh.

Now with more than 8,000 workers, Garco10 produces every year over 20 million pieces of apparel, sold locally and internationally, in Japan, Europe, and the United States, its largest export market.

"We see great potential for growth in the U.S. market and have plans of increasing our capacity to suit the needs of our clients. And the reason for our success is our workers. All of them have a stake in the company and we listen to them," said Huyen.

Supporting the intelligence and creativity of its workforce, Garco10 has nurtured a strong commitment to the local community. It built a hospital and a vocational school in the area.

"GARCO10 workers love where they work, and this is shown in the quality of our garments. We achieve this high quality through dedication to our employees and commitment to our partners worldwide," she also said.

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accountable for the pledges it has made to that end in the strategic partnership agreement and at international conferences. The international community can grant more explicit recognition to legitimate domestic opposition and civil-society organizations by interacting with them and sponsoring formal training programs for political parties. To strengthen Afghanistan's ability to manage dissent peacefully, the United States should encourage the parliament to take on an increased role in overseeing the appointment of government officials and in the development and approval of national budgets. Only through such reforms can Afghanistan heed the concerns of the public and offer former combatants the ability to advance their interests through politics rather than the use of force.

Even an ultimately unsuccessful effort to reach out to the Taliban may carry benefits.

Moreover, U.S. financial assistance should support Afghanistan's political transition, seeking to ensure that the Afghan state does not collapse as foreign aid drops and the economy weakens. Several successful programs initiated during the past decade deserve continued support, such as the National Solidarity Program and a program to develop a basic package of health services, which work at the community level to deliver services and fund development projects often overlooked by national planners. Washington should support management teams in important ministries, such as the Ministry of Finance and the Ministry of Mines. The United States should also channel a higher percentage of its assistance through the Afghan budget, rather than through outside contractors, and then use it as leverage to push the government toward stronger anticorruption measures. These measures should include the prosecution of some high-profile offenders, such as those who recently brought down Kabul Bank, to make clear that impunity will no longer be the norm.

Second, the United States must facilitate a political settlement among Afghanistan's opposing factions. Any strategy for reconciling Afghan's diverse groups should include an effort to reach out to the Taliban. The success of such an effort is far from assured: the Taliban have repeatedly rejected talks with the Afghan government; their plans to open a political office in Qatar, once seen as a step toward negotiations, have not materialized; and U.S. efforts to coordinate a prisoner exchange have hit an impasse. Both the Afghan government and the insurgency are fragmented, and Karzai has insisted on controlling the negotiations. Insurgent commanders and criminals in Afghanistan who benefit from the persistence of conflict, as well as regional spoilers such as Iran and Pakistan, have made negotiating a settlement all the more difficult.

But even an ultimately unsuccessful effort may carry benefits. By promoting negotiations, the United States can test the intentions of various actors in Afghanistan and Pakistan, clarify which Taliban representatives have the authority to speak for which parts of the movement, and better understand the vision of Pakistani leaders for Afghanistan's future. And outreach efforts by the U.S. and Afghan governments may themselves weaken the insurgency. Recent reports suggest that the Taliban's discussions with the United States have lowered morale and generated confusion and conflict within the insurgency's ranks.

The basic contours of a political settlement with the Taliban have been in place for several years: the Taliban must respect the Afghan constitution, renounce armed conflict, and sever their ties with al Qaeda. Little progress has been made, however, in establishing a process to operationalize these concepts in an agreement. For a successful settlement to be reached by 2014 or soon thereafter, this work must be undertaken in earnest.

As a first step, U.S. civilian and military officials must redouble their efforts to establish a road map for negotiations that includes not only the United States and some combination of the Taliban and the Karzai administration but also other stakeholders, such as the parliament, domestic opposition groups, and women's and civil-society organizations. The whole of Afghan society must be made to feel comfortable with the process of reaching out to the Taliban and whatever results from it. If the negotiations are not transparent, each participant will suspect that its counterparts are attempting to forge separate peace accords. This would weaken both the prospect for a consensus agreement and the ability of leaders to negotiate on behalf of their supporters, who remain divided over the benefits of talks. Whether negotiations take place under the auspices of the United

REUTERS / KEVIN LAMARQUE

Breaking up is hard to do:
Hamid Karzai and Barack Obama in New York, September 20, 2011

Nations, Qatar, Saudi Arabia, or another neutral mediator, the process will gain traction only through sustained engagement by all the relevant parties.

Washington should also suggest a number of confidence-building measures that could advance peace talks. Leaders of the Taliban and the Afghan government need to demonstrate to their constituents that their interests will be best protected through negotiations, not violence. Steps to build mutual trust that are already under discussion include guarantees of safe passage for negotiating teams and prisoner transfers. If the insurgents took certain positive steps, such as entering into a serious dialogue with the Karzai administration or halting assassination attacks on government employees, the United States might respond by supporting the removal of Taliban figures from the UN blacklist, which groups them together with al Qaeda members and subjects the group to international sanctions.

Third, any political solution to the conflict in Afghanistan will be sustainable only if it forms part of a larger regional settlement. The Pakistanis, in particular, need to come on board and may require some U.S. prodding to get there. Pakistan has undermined the prospects for long-term peace in Afghanistan by providing sanctuary, training,

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and financial support to the insurgency, in part to counter what it fears will be undue Indian influence in the country. U.S. officials must pursue a frank and candid dialogue with Pakistan's civilian leadership and security and diplomatic establishments to figure out what role they can play in reconciliation efforts. Without these conversations, Pakistan appears unlikely to use its influence to bring militant groups to the table. Of course, the Karzai government must be part of these discussions.

Greater dialogue with both insurgents and the Pakistanis will clarify which groups might be willing to engage in negotiations and which remain irreconcilable and thus will need to be defeated by force. The United States should appoint an official, based in the region and reporting to Marc Grossman, the U.S. special representative for Afghanistan and Pakistan, to be specifically tasked with working with Afghan and Pakistani officials to develop a plan for engaging the Taliban. The United States should use both carrots and sticks to get Pakistan to act against those insurgents who are unwilling to negotiate.

NEIGHBORHOOD WATCH

The future of Pakistan, even more than the future of Afghanistan, will determine the stability of South Asia as a whole and thus has greater implications for U.S. national security. Therefore, one of the central objectives of the U.S. mission in Afghanistan has been to prevent the further destabilization of Pakistan. But the Afghan conflict places tremendous pressure on Pakistan's society and leadership and increases friction between Washington and Islamabad, complicating the United States' ability to advance its interests when it comes to Pakistan. These interests are threefold: eliminating transnational terrorist groups that can directly threaten the United States and its allies, preventing the use or proliferation of the country's nuclear weapons, and supporting its transition to a mature, civilian-led democracy.

Given the distrust in the relationship, the United States may be tempted to escalate its indirect conflict with Pakistan over Afghanistan, break any pretense of cooperation, and instead seek to contain the

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Pakistan-based insurgency to prevent it from operating in Afghanistan, India, or elsewhere. Proposals for ramping up pressure on Pakistan include increasing the drone strikes, conducting U.S. Special Forces operations in the country, cutting Islamabad off from international financial resources, labeling Pakistan a state sponsor of terror, and imposing sanctions. But ending cooperation with Islamabad would considerably undermine U.S. interests in the country. And given the resiliency of the Taliban insurgency and the inability of the Afghan government to support itself, such a break is unlikely to achieve U.S. goals in Afghanistan, either.

Ending cooperation with Islamabad would considerably undermine U.S. interests in Pakistan.

The United States should thus attempt to de-escalate tensions with Pakistan and restore security and political cooperation. Washington should maintain the ability to act unilaterally in cases in which the United States' immediate security is at risk or if renewed cooperation with Islamabad fails. But this approach will prove too costly—for both the United States and Pakistan—if pursued over the long term.

That is why the Obama administration and Pakistani leaders are attempting to redefine the relationship in the wake of the Pakistani parliament's lengthy review of the two countries' terms of cooperation. The United States and Pakistan will continue to disagree on a host of issues, such as drone strikes and the perceived threat from India. But after a series of crises in the relationship over the past year, both sides should see with renewed clarity the need to find a working relationship that accommodates their core interests.

The United States should also encourage Pakistan's transition to a mature, civilian-led democracy. Lacking basic mechanisms of accountability, successive Pakistani military and civilian governments have faced few consequences for their mismanagement of the country's deep political and economic challenges. The failure to educate and provide opportunities for the country's burgeoning youth population and the lack of success in integrating the country's economy into the region have left Pakistan at risk of falling behind its neighbors.

A more democratic, civilian-led Pakistan would better respond to the will of its citizens, expand the rule of law, and begin to address its economic crises and fraught civil-military relations. This could stabilize Pakistan and its ties to its neighbors, two important U.S. national security goals for the region. Despite strains in the U.S.-Pakistani relationship, Washington must do what it can to support Pakistan's civilian institutions and fledgling democracy.

To start with, Washington should send clear diplomatic messages to all Pakistani political actors that military coups or other extra-constitutional ousters of a civilian government will carry drastic consequences for U.S.-Pakistani cooperation. Over time, Washington also needs to shift its principal forum of dialogue with Pakistani officials from the military to the civilian sector. To be sure, working with the military through the civilian government, rather than directly, may be impossible at a time when the United States' policies in Afghanistan and Pakistan are so intrinsically linked. But Washington can start by lowering the public profile of the visits of its military envoys to Pakistan in favor of enhancing its interactions with civilian counterparts. Moreover, the United States should not limit its engagement with Pakistan's civilian leadership to only those serving in government but engage with all political parties and civil-society groups in the country. And Washington should cultivate relationships with the next generation of civilian leaders, who offer the best hope for a turnaround in Pakistan.

Taking a longer view of Pakistan's democratic transition will also require the United States not to hold its economic and development assistance hostage to short-term security objectives. This does not imply condition-free aid. Rather, the conditions Washington sets for its economic and development assistance should focus on ensuring the effectiveness of that assistance, through transparency and accountability, and encouraging the Pakistani government to develop its own methods of boosting growth.

GET GOING

Achieving U.S. interests in Afghanistan while simultaneously reducing the high costs of American involvement there requires a more robust political strategy. This strategy, which needs bipartisan support domestically and support from U.S. allies abroad, should aim for an inclusive political process and badly needed governmental reforms that can reconcile the fractious elements of Afghan society and foster more legitimate and effective governance for Afghanistan's people. With Pakistan, Washington should reinvigorate its diplomatic ties, challenge Islamabad to contribute to a peaceful settlement in Afghanistan, and commit to the country's long-term democratization. As the United States brings its engagement in the region to a more sustainable level, it must focus more on this political strategy, synchronizing it with its military activities.

Many U.S. policymakers have attempted to identify the best means to conclude the decadelong intervention in Afghanistan without squandering the United States' hard-earned gains and countless sacrifices. One must be mindful, then, that the success of this proposed political strategy is far from assured. But in order to have a chance of succeeding, these efforts must start now, before the military and political transitions of 2014 are suddenly upon us.

Obama's New Global Posture

The Logic of U.S. Foreign Deployments

Michèle Flournoy and Janine Davidson

Tough economic times have often been met in the United States by calls for a more modest foreign policy. But despite the global economic downturn, in today's interdependent world, retrenchment would be misguided. The United States' ability to lead the international community is still invaluable and unmatched. Its economy is still by far the largest, most developed, and most dynamic in the world. Its military remains much more capable than any other. The United States' network of alliances and partnerships ensures that the country rarely has to act alone. And its soft power reflects the sustained appeal of American values. The United States should not reduce its overseas engagement when it is in a position to actively shape the global environment to secure its interests.

Preserving the United States' unique standing and leadership will require revitalizing the American economy, the foundation of the nation's power. It will also require smart engagement with the rest of the world to create the conditions that are essential to economic recovery and growth, namely, stability and uninterrupted trade. For decades, those have been underwritten by the forward engagement of U.S. forces and by robust networks of alliances. For example, a sustained U.S. military presence in Europe and Asia, along with healthy diplomatic and economic ties to allies there, has reaped decades

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of peace and prosperity for the United States and the world. Bringing most of those forces home would be detrimental to U.S. national security and economic recovery.

Nevertheless, fundamental changes in the international strategic environment have brought the United States to a strategic inflection point, requiring a recalibration of the United States' global military posture. The rise of China and India is shifting the power dynamics in Asia and the world at large. Transnational threats, such as terrorism and proliferation, pose new collective challenges. The global commons—the maritime, air, space, and cyberspace domains—are increasingly congested and contested. And with the end of the Iraq war and the planned 2014 transition in Afghanistan, the United States is nearing the end of a decade of ground wars in the Middle East and South Asia.

In response to these changes, in 2009 the Obama administration launched a major review of the U.S. global military posture to determine how to make it more strategically sound, operationally resilient, and politically sustainable. The review is ongoing but has already yielded a number of new initiatives, such as a shift away from the Cold War orientation of U.S. forces in Europe and a reinvigoration of the United States' partnerships in Asia. These moves reflect the fact that with the war in Iraq over and the transition in Afghanistan under way, the United States must focus American leadership on addressing emerging threats and preventing conflict and on securing a better future through partnership and engagement.

THE LOGIC OF SUSTAINED FORWARD ENGAGEMENT

During the Pentagon's last global posture review, in 2004, then U.S. Secretary of Defense Donald Rumsfeld's guiding principle was closing overseas bases and bringing home U.S. troops stationed abroad. In contrast, the Obama administration has emphasized making the country's forward posture more efficient and effective. American forces stationed abroad should be aiming to prevent conflict, build the capacity of key partners, maintain core alliances, and ensure the U.S. military's ability to secure American interests in critical regions. Forward engagement, as this approach is called, does not mean policing the world or letting other countries free-ride on U.S. security guarantees. And partnership does not mean relinquishing American sovereignty to regional and international institutions. Rather, forward engagement means leveraging the United States' biggest strength, the ability to lead, while encouraging others to share the burden.

The cornerstone of forward engagement will be positioning U.S. troops in vital regions to help deter major conflicts and promote stability, particularly in Asia and the Middle East. As the long-term U.S. deployments in Europe and Asia have demonstrated, the physical presence of military forces sends a powerful message to potential adversaries. Some believe that troops garrisoned at home are just as effective a deterrent, given the global reach and technological superiority of the U.S. armed forces. But that argument, which was the cornerstone of Rumsfeld's posture vision, ignores the realities of time, distance, logistics, and politics. As the United States' experience in the two Iraq wars demonstrated, it takes weeks, if not months, to deploy a force of the size and strength required for some of the most likely and most dangerous scenarios the United States could face around the world. Furthermore, moving troops from the United States to a conflict zone just as tensions begin to rise can exacerbate or escalate a crisis.

Obama has made clear that the United States is "a Pacific nation."

Forward-postured forces also reassure allies of the United States' commitment to their security. On the Korean Peninsula, for example, the presence of some 28,000 U.S. personnel reminds Seoul that the United States stands ready to defend South Korea against North Korean aggression. Further south, U.S. naval and air forces engaged in Australia, the Philippines, Singapore, and Thailand give allies in Southeast Asia greater confidence that the United States will not abandon the region at a time of great change and uncertainty.

Should deterrence fail, forward-stationed military forces are well placed to facilitate a collective response. As the recent NATO operation in Libya showed, responding to threats requires guaranteed access to supply routes and bases, diplomatic support, and, ideally, the help of allies in the field. Quickly assembling a posse to get the bad guys might have worked in old Westerns, but it does not work in complex, high-tech military operations. For those, common command-and-control

ROYAL AUSTRALIAN NAVY / HELEN FRANK

Pacific power: the USS Cleveland *unloads in Vanuatu, May 2011*

protocols, interoperable technologies, doctrines, and planning processes should be developed well in advance. And more than any other forces, forward-stationed forces can spearhead those preparations. They can conduct regular training exercises with allies to identify and correct shortfalls, build trust among U.S. and allied service members, and develop the shared practices that make the militaries work together more effectively in the field.

Another good reason for forces to remain engaged abroad, even in peacetime, is to serve as an investment in burden sharing. Training and conducting real-world missions with allies and partners, such as the United States' multilateral antipiracy operations off the Horn of Africa and its freedom-of-navigation exercises in the Persian Gulf, helps build up their capacities. Such engagement also promotes a shared vision of the world, in which the rule of law dominates, disputes can be resolved without the use of force, and commerce flows freely. In turn, such partners are more able to address problems at home without the need for U.S. forces. Such relatively small investments in peacetime activities can mean not having to put American men and women in harm's way later.

Forward engagement is not only an effective way to safeguard U.S. national security interests; it is also a responsible and efficient way to position U.S. forces in a time of economic constraint. The political scientists Joseph Parent and Paul MacDonald argued in these pages ("The Wisdom of Retrenchment," November/December 2011) that closing U.S. overseas bases and bringing U.S. personnel home would save billions of dollars. Such an argument misunderstands how U.S. armed forces are sustained abroad and underestimates the expense of relocating them. The United States has 1.4 million men and women in uniform. All of them, and their families, must be housed and trained somewhere. It is not necessarily cheaper to do that in the United States, especially since some countries, including Germany, Japan, and South Korea, help foot the bill for U.S. facilities stationed there. Furthermore, it would be a colossal misallocation of resources to abandon significant capital investments—for example, the world-class U.S. Army training center in Hohenfels, Germany—only to build duplicate facilities at home.

The United States should position its forces to provide national security in the most efficient and responsible way possible. In the coming years, the U.S. military will likely be operating in a tight budget environment, but Washington can get more for less by positioning a larger percentage of its forces in key regions. Take, for example, the rotation cycles of U.S. naval ships. For every ship out securing sea-lanes or deterring aggression, there are three others in various stages of maintenance or in transit. Porting ships closer to their areas of operation in Europe or Asia would save each vessel three to four weeks in transit time and would require keeping one-third fewer ships in U.S. inventories. That alone would save billions of dollars in acquisition, operations, and maintenance costs. Similarly, the strategic forward stationing of U.S. forces, combined with periodic rotations by U.S. forces to train with allies, makes the best use of American resources, enhances cooperation and burden sharing, and ensures that the military is positioned and ready to respond to emerging threats and crises.

STRATEGIC REBALANCING

An optimal U.S. military posture must reflect the reality that resources will be limited in the coming years and that the United States

SHANGHAI | HIGHER EDUCATION

Usually when one thinks of educational exchanges between the United States and China, the image is of ambitious Chinese engineering and business students heading westward. But with a global awareness of China's growing role in world, more American students than ever are heading east to better understand the country's unique culture, language, and business environment.

China is now the fifth-largest destination for American students, with more than 14,000 studying abroad in China in 2010, a large jump from 3,000 students a decade ago.

But the number is still a long way from the goal set by the 100,000 Strong initiative, a program backed by U.S. President Barack Obama and Chinese President Hu Jintao in 2009 to boost the number of students studying in China by 2014.

The initiative was a clear sign on the part of Washington to bring down the language and cultural barriers that often divide the two economic superpowers.

Shanghai, the country's business and economic capital and arguably its most international city, has been the preferred destination for the numerous American universities that seek partnerships with major local universities.

Dr. Cao Deming, president of Shanghai International Studies University

One of the most international and respected universities in the city is Shanghai International Studies University (SISU).

SISU offers twenty-five foreign language degrees, as well as non-linguistic degrees in subjects such as international business and trade, finance, law, international politics, journalism, and various MBA programs for international students.

"SISU especially focuses on getting students immersed in a multicultural environment, and the goal is to ensure that by 2015, at least 50 percent of our full-time students will have studied or stayed in a foreign country for a brief or extended period of time," said SISU president Dr. Cao Deming.

"SISU has now established partnerships with 218 institutions of higher education from forty-eight countries, and has maintained close exchanges and communication with international organizations, including the United Nations and the European Union," he added.

Among the thirty-two U.S. institutions of higher education that have partnerships with SISU are California State University Long Beach, Kent State University, and Kennesaw State University.

SISU and the College Board have been implementing various forms of exchange and cooperation programs that "provide students, faculty members, and scholars from both sides with great opportunities."

Regarding the development of education in China's commerical capital, Dr. Cao expressed huge optimism in its long-term future.

"Shanghai is striving to become an international center in terms of economy, finance, trade, and transportation. On one hand, China's input to education keeps increasing in recent years and the quality of higher education is being steadily improved," he said.

"Shanghai's higher education system is quite well developed, boasting internationally recognized prestigious universities as well as universities that are specialized in a certain discipline or multiple disciplines," he added.

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simply cannot be present everywhere. With that in mind, the Obama administration's defense posture realignment will customize deployments based on the exigencies of each region and U.S. priorities.

The most significant shift will be toward the Asia-Pacific region. President Barack Obama has made clear that the United States is "a Pacific nation" and that it will "play a larger and long-term role in shaping this region and its future." His emphasis is reflected in the Defense Department's January 2012 "strategic guidance" document, which states that "U.S. economic and security interests are inextricably linked to developments in the arc extending from the Western Pacific and East Asia into the Indian Ocean region and South Asia."

Accordingly, as U.S. responsibilities in Afghanistan wind down, the country's attention and resources, both diplomatic and military, will begin to concentrate more on the Asia-Pacific region. The American presence in Japan and South Korea will remain a cornerstone of this strategy, even as the United States builds up its relationships with other Asian nations, especially those in and around Southeast Asia. Already, last November, Obama and Australian Prime Minister Julia Gillard announced plans for enhanced U.S.-Australian military cooperation, including sending up to 2,500 U.S. marines to Australia for joint training and exercises, increasing visits by U.S. aircraft to northern Australian airfields, and conducting more calls by U.S. ships to various Australian ports.

The United States is also planning to deploy two new Littoral Combat Ships, small vessels designed to operate close to shore, from Singapore and is exploring enhanced military cooperation with the Philippines, Thailand, and Vietnam. The details are still under discussion, but this cooperation will likely include more joint exercises, troop rotations, and ship visits. Throughout the region, new bilateral and multilateral training programs, especially those geared toward humanitarian relief, disaster preparedness, interoperability, and capacity building, will help the region better counter transnational threats, prevent conflict, and respond to crises.

In the Indian Ocean region, through which 70 percent of the world's petroleum products and 25 percent of global commerce sail, the United States is also deepening its partnerships. The Indian military now conducts more exercises with the U.S. military than with any other. The United States has also enhanced its security cooperation with India by selling New Delhi advanced military systems, such as C-130, P-8I, and C-17 aircraft.

Finally, Obama has made clear that after the drawdown of U.S. forces in Afghanistan in 2014, the United States does not intend to keep any permanent U.S. bases there. However, the strategic partnership agreement that Washington and Kabul concluded in May laid the groundwork for a long-term security relationship between the two countries. Making good on that commitment will almost certainly involve deploying a smaller number of U.S. forces to Afghanistan on a rotational basis. Those troops will support joint counterterrorism efforts and continue to help build the capacity of the Afghan National Security Forces. Meanwhile, the United States will no longer depend as heavily on the Northern Distribution Network, which runs across the Baltic states and through Central Asia and which NATO set up to keep its troops in Afghanistan supplied. Even so, the United States should seek to maintain cooperative relationships with as many of the network's states as possible, given the strategic flexibility these relationships provide in a region that lies at the crossroads between Europe and Asia.

NEW MIDDLE EAST

For the past ten years, the United States' military posture in South Asia and the Middle East has been shaped by large, protracted wars in Afghanistan and Iraq. In the future, the U.S. presence in the region should be lighter but easy to quickly scale up. It should focus on underwriting the United States' security commitments to its partners, ensuring the free flow of commerce, countering violent extremism, deterring Iran, and preventing the proliferation of weapons of mass destruction.

The United States' commitment to the security of Israel is unbreakable. In addition to helping ensure Israel's qualitative military edge, the U.S. military should continue to work closely with Israeli forces to make sure that their defenses keep pace with emerging threats. In recent years, this has involved the joint development of missile defense systems. In the future, it will involve sharing the

United States' most sophisticated systems, such as the Joint Strike Fighter, with the Israeli military.

The United States' strategic posture in the Middle East must be credible enough to deter threats to stability, such as Iran, without overstepping the bounds of host nations' tolerance for the presence of foreign forces. The United States will thus continue to deploy its troops on a rotational basis. Instead of maintaining permanent installations, U.S. air and naval forces will likely spend stints in Bahrain, Qatar, Saudi Arabia, the United Arab Emirates, and, potentially, Iraq. These deployments will demonstrate the United States' sustained commitment to its Arab partners and will help them address shared threats.

The United States can and should play a central role in fostering regional cooperation to address other common challenges, as well. For example, given the proliferation of ballistic missiles in the region, the United States should continue to place particular emphasis on working with partners, or groups of partners, to develop and deploy missile defense systems. Ideally, the United States could build on the robust bilateral missile defense cooperation it has with Saudi Arabia and the United Arab Emirates to create a more effective regional missile defense architecture.

The United States should also continue to coordinate regional efforts to counter piracy, combat terrorism, and protect freedom of navigation in and around the Persian Gulf. For example, the U.S. Navy in Bahrain currently provides the physical infrastructure and leadership for a 25-member combined maritime task force, which is focused on ensuring safe passage for commercial ships through the Persian Gulf, the Strait of Hormuz, the Red Sea, the Gulf of Aden, the Arabian Sea, and the Indian Ocean. Such activities help ensure the free flow of trade and oil and promote burden sharing by building up the skills of regional partners.

Looking to the future, the United States would be wise to consider how the political changes sweeping the region may alter its security relationships there. Military-to-military engagements with the region's rising democracies should promote the development of civilian-led security forces committed to upholding human rights and the rule of law. Strong U.S. security cooperation with the militaries of countries going through democratic transitions, most notably Egypt, can provide both a degree of stability in the bilateral relationships and some leverage to influence those governments at a time of profound change. Nevertheless, the United States must be prepared to adapt and adjust its military engagement with these countries as new governments emerge, based on assessments of both the nature and the actions of those governments, the degree to which U.S. interests and strategies in the region overlap with theirs, and their willingness to partner with the United States.

A FORWARD-LOOKING FORWARD POSTURE

As THE United States recalibrates its global military posture, it must continue to work closely with its NATO allies. At a time when most of Europe is slashing its defense budgets, the United States must remain deeply engaged to make sure its partners there still shoulder their share of the collective defense burden. A decade of military operations in Afghanistan strengthened NATO's fighting skills and enhanced its ability to cooperate at the political level, which was absolutely critical to its timely and unified response in Libya. But, as Ivo Daalder, the U.S. permanent representative to NATO, and James Stavridis, NATO's supreme allied commander for Europe, recently observed in these pages ("Nato's Victory in Libya," March/April 2012), the Libya mission also revealed the need to improve high-end interoperability. To keep the alliance healthy, the United States will need to make an effort to improve NATO's coordinated targeting and planning. Members of the alliance will need to invest in updated capabilities and commit to sustained integrated training.

The security and stability of Europe no longer require the number of U.S. ground forces currently stationed there. The Obama administration's new defense posture will address this imbalance. Two heavy brigades, formations of about 3,500 soldiers each, will be taken out of the region, leaving a Stryker and an airborne brigade, both of which are lighter and more agile, to train with allied ground forces. The reduction will be offset by a greater U.S. contribution to the NATO Response Force, a multinational land, air, maritime, and special operations force that is ready for swift deployment.

The United States will also allocate an additional U.S.-based army battalion for regular training rotations from the United States to Europe. Meanwhile, the United States will leverage its comparative advantage in high-end capabilities, for example, by applying the president's phased and adaptive approach to European ballistic missile defense and providing command-and-control infrastructure, technology for training, and airlift and air-refueling capabilities.

Finally, in other regions, where few U.S. forces are permanently stationed, the United States' day-to-day military posture will be tailored to address high-priority missions, such as countering violent extremism and halting illicit trafficking. As the Defense Department's new strategic guidance made clear, in these regions, "whenever possible, we will develop innovative, low-cost, and small-footprint approaches to achieve our security objectives, relying on exercises, rotational presence, and advisory capabilities."

In Africa, for example, the military can expect to routinely deploy small Special Forces teams to work with partners on counterterrorism. In the Americas, U.S. forces will continue to train with their counterparts in Mexico and Colombia and throughout Central America to stanch the drug trade. Elsewhere, small contingents of U.S. military personnel should continue supporting local law enforcement agencies in their efforts to enhance the rule of law. And in dozens of countries, the United States will maintain the State Partnership Program, through which a given U.S. state's National Guard develops a long-term relationship with the military of a foreign country to help build the military's capacity through joint activities. The United States' global posture will be backed by ready and capable forces at home, which will be available for routine foreign deployments, from the Arctic to the Horn of Africa.

Obama's strategic realignment rightly recognizes the role that the U.S. military plays in promoting stability and securing U.S. national interests around the world. A sustained U.S. military presence in key regions has ensured global stability and strengthened the armed forces of many partner countries. Protecting U.S. interests now and in the future will also require long-term, strategic forward engagement. At this inflection point, the president must resist calls for retrenchment and continue to champion the United States' unique leadership role in the world.

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How India Stumbled

Can New Delhi Get Its Groove Back?

Pratap Bhanu Mehta

When the United Progressive Alliance, a group of center-left parties led by the Indian National Congress, came to power for a second term in 2009, it seemed that India could do no wrong. The economy had sailed through the worst of the global economic recession with GDP growing at a fast seven percent annually and accelerating (it reached 10.4 percent in 2010). Inflation was low, officials were finally starting to take India's social problems seriously, and politics in the world's largest democracy were contentious but robust. The rest of the world was even looking to the country as a serious global power. "India is not simply emerging," U.S. President Barack Obama told the Indian parliament in November 2010; "India has emerged."

Just two years later, however, India's growth is slackening, its national deficit is growing, and inflation is rising after having fallen between early 2010 and early 2012. Plans to build a more inclusive nation are in disarray. Income inequality has risen. According to the economists Laveesh Bhandari and Suryakant Yadav, the urban Gini coefficient (a measure of inequality, with zero indicating absolute equality and one indicating absolute inequality) went from 0.35 in 2005 to 0.65 today. And access to basic services, such as water, health care, and sanitation, remains woefully inadequate. Meanwhile, the country's democracy putters along, but in the absence of leadership, policymaking has ground to a halt. India seems to have

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gone from a near-sure thing to, as the financial analyst Ruchir Sharma put it in *Breakout Nations*, a 50-50 bet.

Yet the change in India's economic performance is not nearly as stark as the comparison between 2009 and 2012 suggests. The economy has been troubled all along; all the hype in 2009 disguised a number of real weaknesses. Despite some economic liberalization in the years before, a whole range of regulations still made India a stifling environment for most businesses. In addition, the Indian agricultural sector, which accounts for around 15 percent of the country's GDP and employs about 50 percent of its work force, was a constant cause for worry. Strictures such as tight labor regulations, the inconsistent application of environmental laws, and arbitrary land-acquisition practices made it difficult for producers to respond to any changes in demand. Swings in food prices, a heavy burden on India's poor and farmers, could have thrown the economy into disarray at any time.

That said, the current pessimism about India underestimates some real strengths. Even as a few indicators have soured since 2009, India's household savings rate has stayed above 30 percent (compared with under five percent in the United States). According to India's Central Statistical Office, the country's private consumption rate is around 60 percent (compared with China's 48 percent). These solid figures mean that India's economic ups and downs have neither overtaxed the public, forcing it to dip into its savings to make it through tough economic times, nor dampened its appetite for goods and services quite yet. Indian companies, too, are flush and can rapidly begin to invest in new labor, machinery, or production processes when they believe the timing is right. And for its part, the government still has plenty of room to make tax collection more efficient, so it can finance greater public spending without raising the burden on citizens. Beyond that, one must not discount the optimism among the country's poorest and most marginalized. Growth opened up new opportunities for them, and the correlation between caste and occupation continues to weaken. In addition, they have come to believe in the economic benefits of education and spend extraordinary amounts to send their children to good private schools.

In other words, just as in 2009, India is still fully capable of entering the ranks of world economic heavyweights. The problem, however, is that its politics are getting in the way.

TOO GREAT EXPECTATIONS

In a sense, melancholy about India's economic prospects is the result of miscalibrated expectations. When India's GDP growth surpassed ten percent in 2010, many in India projected that the economy would continue growing just as fast for years to come. And given the steady progress in the fight against poverty, they thought that India would soon be a world-class model for inclusive, high-growth democracy. That hope has dimmed, with the Indian economy's growth rate now projected to be as low as six percent annually. Of course, that is no small achievement by international standards, and expecting ten percent growth was wildly unrealistic to begin with. Still, there is no reason India cannot do better. And its failure to do so has cast a cloud over the country's future.

But the public did have some reasonable economic expectations, too, ones set by the government itself: when Manmohan Singh, now prime minster, served as finance minister in the early 1990s, he spearheaded a number of economic reforms that were supposed to create a new social contract for the country. Under his initiatives, the state would dismantle domestic controls on private enterprise, gradually integrate India into the world economy, rationalize the tax and tariff structures, and provide transparent regulation. The resulting growth, he promised, would benefit everyone. It would expand the country's tax base and lead to a boost in government revenue. Those funds could be spent on health care, education, and improved infrastructure for the poor. Eventually, they, too, would become productive components in India's economic machine.

But India's social contract hasn't panned out as planned. In addition to slowing growth and rising interest rates and inflation, the country has seen the value of the rupee fall by around 20 percent since last summer. The economy can still pick up if the government makes wise policy choices. But New Delhi has yet to indicate how expansionary a monetary policy it is willing to pursue. It seems hesitant to consider the tradeoffs: whether it would like to preside over an economy with six percent annual growth and four percent inflation or one with eight percent growth and eight percent inflation. Eight percent inflation might seem too high to be palatable, but it might be a lesser evil: just to absorb enough new workers into the labor force to keep unemployment levels steady, the Indian economy needs to expand by seven to eight percent each year. Until New Delhi sends a clear signal about its intentions, companies will be hard-pressed to make assumptions about the future and invest the cash they have on hand.

Singh's reforms also suggested that India would become more transparent in its economic policymaking. But one of the most disconcerting developments of the last two years has been the Finance Ministry's backtracking on that commitment. Two recent actions illustrate the trend. First, earlier this year, the government decided to sell shares of the state-owned Oil and Natural Gas Corporation, but there were no real buyers. So in March, it simply coaxed the state-owned Life Insurance Corporation of India into investing in ONGC. The investment raised hackles in the financial community, and Moody's downgraded the Life Insurance Corporation to Baa3 from Baa2. Second, in May, New Delhi decided to retroactively tax the takeover by the British telecommunications company Vodafone of an Indian phone company; the move is still being disputed, but if it goes forward, it could generate between $2 billion and $4 billion. What this measure means for foreign investment has been hotly debated. Such investment does not always depend on transparency and regulatory clarity. China, for example, has been able to paper over its lack of either. But in India, which is not yet quite as economically dynamic as China, many fear that such arbitrary interventions will scare away foreign investment.

New Delhi has gone out of its way to ease life for big businesses.

Moreover, the government's commitment to a kind of growth that could serve all Indians has been inconsistent. Rather than create a propitious environment for small businesses, which would boost entrepreneurship and add to India's economic dynamism and growth, New Delhi has gone out of its way to make life better for big businesses, granting them access to easy credit, dedicated power plants, and protection against currency fluctuations. That is a problem because India's big-business sectors, such as mining, land development, and infrastructure, are its most corrupt. The government's backing of them has started to erode the public's fragile consensus on capitalism, and the old association of capitalism with corruption has returned.

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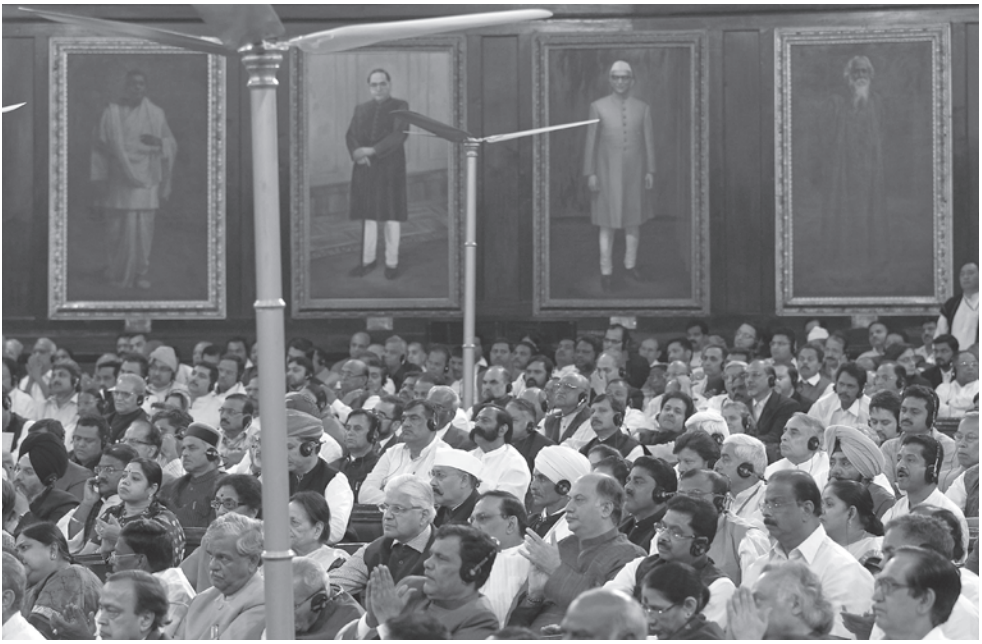
On the social side, the picture is mixed. India has indeed rolled out a number of entitlement and welfare schemes. The 2005 National Rural Employment Guarantee Act, which guaranteed 100 days of employment per year to at least one member of every rural household, has had the desired effect of raising wages in the countryside. (Although patterns vary across states, a majority of participants in the program are women.) And central government spending on the social sector, including health care and education, has risen from 13.4 percent of the total budget in 2007 to 18.5 percent today. But due to inefficiencies and corruption, much of that money never reaches the targeted beneficiaries. And it is too soon to assess whether the most hailed employment and educational schemes have built the skills people will need for longer-term participation in the economy. Furthermore, most of the initiatives reek of central planning, with New Delhi micromanaging the design of each program. States rightly complain that they are not given enough leeway to experiment with the programs in order to tailor them to the particular needs of their constituents.

Some have said that the Indian social contract has broken down entirely. They point to the continued Maoist insurgency in the country's east, farmer protests over government land grabs across India, and the disconcerting phenomenon of farmer suicides. But some historical perspective is in order. According to Devesh Kapur, director of the Center for the Advanced Study of India at the University of Pennsylvania, overall communal violence in India has "plummeted to a tenth of the 2002 level," and "in the last decade all forms of political violence have declined markedly, save one—Maoist-related violence." Most protesters today realize that they have something to lose if India's economy suffers. And rather than a sign of economic stagnation, many of these uprisings signal that India's rise has created new expectations that New Delhi has yet to meet.

DELHI DEADLOCK

So why hasn't the government been able to fulfill the public's hopes? First, politics in India are deeply fragmented, which makes consensus hard to come by. For example, an important tax reform, the introduction



REUTERS / JIM YOUNG

Democracy inaction: parliamentarians in New Delhi, August 2010

of an integrated goods and services tariff, has been delayed for three years. This national levy would replace various complicated state-level taxation systems, and economists believe that it could boost growth and promote trade. Another example is the haggling over whether to to open up India's retail market to foreign megafirms, such as Walmart. For its part, the Singh administration has said that doing so would create more than three million jobs and could be implemented in a way that did not hurt small local stores. But after announcing a plan in late 2011 to open the sector, the government quickly backtracked because of protest among the opposition, within Singh's own party, and on the street.

Second, the authority of politicians has eroded considerably. To be sure, they have done an admirable job of keeping democracy going and improving political access among marginalized groups. But they have also been deeply inefficient and self-serving. The public has grown tired of their mismanagement of India's economy and welfare system. In addition, a series of scandals in 2010 and 2011—including the sale of telecommunications licenses to political allies, sweetheart deals for construction contracts, and the granting of real estate development rights allegedly in exchange for incredible

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sums of money—called the integrity of a whole range of institutions, from the courts to the army, into question.

The political leadership, instead of recognizing its failures and working to restore moral order, has evaded responsibility. The Indian National Congress' top brass, which includes Singh; Sonia Gandhi, the party's leader; and Rahul Gandhi, Sonia's son and political heir, seldom speak in parliament or give press conferences. When they do, they complain about India's governance problems without acknowledging that they, in fact, are the very center of government. For example, Sonia Gandhi, speaking in November 2010 at the tenth Indira Gandhi Conference, admitted that "graft and greed are on the rise" and lamented that India's "moral universe seems to be shrinking." Her tone indicated that she interpreted these developments as being someone else's problem. Indeed, the Congress' leaders use their offices as relay centers, simply forwarding concerns along rather than taking charge and addressing them. The political vacuum they have created has further eroded public confidence.

India is undergoing a broad reformation of its political culture that any party would struggle to manage.

The government's favorite scapegoat for the dysfunction is coalition politics. "The difficult decisions we have to make," Singh told parliament in March, "are made even more difficult because we are a coalition government." That means, he continued, that "we have to formulate policy with the need to maintain consensus." There is some truth to what Singh said. The Congress party does not have the numbers to pass legislation on its own. And its alliance partners have routinely opposed important reforms, such as rationalizing energy prices by lifting subsidies for all but the country's poorest, implementing changes to the pension system, and creating a national counterterrorism center. They argue that the moves would trample on states' rights. Of course, just as for the opposition parties, so it is for the Congress party's coalition partners: both gain power and public support if they can show that the Congress is not adept at governing.

Still, India has been governed by coalitions before, and they haven't always had trouble passing difficult legislation. In 2003, parliament,

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then in the hands of an alliance led by the Hindu nationalist Bharatiya Janata Party (BJP), passed the Fiscal Responsibility and Budget Management Act. The main goal of the legislation was to reduce India's budget deficit to three percent. Whether the bill had a positive outcome is debatable; some argue that it slowed growth in social-sector spending too much. But overall, the act signaled that the government was committed to prudent financial management and, more fundamentally, to governing. The Congress party, especially bad at managing the vagaries of Indian politics, has proved no such thing. And that is at the heart of the current malaise.

THE WEAKEST WINNER

The Congress party is something of a puzzle. It is India's dominant party, electorally competitive in more than 400 of the 545 seats in the directly elected lower house of parliament. It now holds 206 of them—more than any other party. It has ruled India for 53 out of the 64 years since independence, in 1947. Even so, it fails on a major score: state politics. In India, government often happens at the local level. Most voters never cross paths with central government officials, and thus they form judgments about political parties through their performance in the states.

Yet the Congress rarely fields strong state-level leaders. The party's leaders have historically been suspicious of politicians with independent bases of their own. So rather than letting local leaders emerge organically, the Congress party typically imposes them from afar. In the recent state elections in Uttarakhand, for example, the Congress party nominated Vijay Bahuguna as chief minister above the objections of local legislators. Bahuguna, a Gandhi loyalist, was previously chief minister of another state. There are exceptions to this pattern: for example, Y. S. Rajashekara Reddy, a politician whose populist bent got him elected as chief minister of Andhra Pradesh, one of India's largest states, in 2004. Reddy helped deliver the district to the Congress and skillfully managed local conflicts during his two terms. But when he died, in 2009, the Congress party was left with no local politician to promote.

Beyond such specific problems, the lack of local leadership means that the party is out of touch with grass-roots movements and demands.

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REUTERS / JITENDRA PRAKASH

Larger than life: a cutout of Rahul Gandhi, Allahabad, India, November 2011

For example, it has continually misjudged the intensity of the demands by the population of Telangana, a region in Andhra Pradesh, for its own state, since it has not paid attention to local leader's voices. Worse, in April, the party even suspended eight parliamentarians from the region for disrupting the parliament's proceedings by agitating for a new state. Without strong ties to locals, the Congress party is also less able to explain its policy choices to an impatient public. As a result of all these missteps, the Congress is increasingly thrown into complicated alliances with more regionally connected parties.

Democratizing the Congress party could help it overcome its problems—and India's. Most Indian political parties, the Congress included, have archaic decision-making structures that are controlled by small groups of elites. Their incentives are to service their existing power structures more than their constituents. There are no transparent processes by which decisions are made or party platforms are shaped, which means that there are no real checks on party leaders.

Rahul Gandhi, now the political face of the Congress, has talked up his intentions to democratize the party. He started the process by reforming the Indian Youth Congress, the Congress party's youth wing, of which he became chair in 2007. Since then, he has worked toward

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what he calls "internal democracy," opening up the group's membership to everyone and holding internal elections with impartial observers present. That is all well and good, but it has had a minimal impact on the rest of the party. For one thing, there has been little change at the top of the Congress party, where loyalty to the Gandhi family is rewarded more than competence.

The lack of democracy within the Congress party is all the more problematic given the little that is known of its soon-to-be leader's governing philosophy. Take, for example, a local's response to one of Rahul Gandhi's speeches in Bihar. As Gandhi pontificated on his pet theme, that there are two Indias, one shining and one increasingly left behind, a journalist asked a farmer in the audience for a reaction. The farmer replied, "For 50 years they have ruled, and now they say there are two Indias. If we give them five years more, they will come and tell us there are three Indias!" Gandhi and his party seem to assume that the two Indias in his story are unconnected. In fact, economic growth has given the state the resources it needs to address inequality. It is New Delhi's failure to use those resources to do so that has caused so much public distress. Gandhi and the Congress party cannot rescue India from its malaise by pointing out problems; they have to demonstrate actual achievement.

YOU SAY YOU WANT A REVOLUTION?

To be fair to the Congress, India is undergoing a broad reformation of its political culture that any party would struggle to manage. Until recently, Indian politicians and bureaucrats all shared four basic management principles—vertical accountability, wide discretion, secrecy, and centralization—all of which made for a government that was representative but not responsive. Today, these principles are becoming obsolete.

In the past, vertical accountability meant that any official in the state was largely accountable to his or her superiors, not to citizens or other institutional actors. But now, government institutions such as the Supreme Court of India and the Office of the Comptroller and Auditor General are starting to exert more horizontal control, partly because there is a such a dearth of leadership at the center. The media,

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too, have become more powerful than they once were, as the number of television channels has expanded. Government functionaries are less and less able to act as if their superiors are the only people they must answer to.

No government can function without a range of discretionary powers. What matters is how governments justify the use of such powers to constituencies affected by their decisions. India's officials, preoccupied with keeping their superiors happy, have seldom seen fit to explain anything to the public. Take the recent scandal over the government's sale of millions of dollars' worth of cell-phone spectrum to politically connected companies. Indians were not only shocked by the magnitude of the deal; they were also outraged by the fact that the government never even tried to justify its decision not to auction the licenses. In the wake of that debacle, there is immense pressure on New Delhi to publicly record the reasons for its moves.

The Indian government has also historically used secrecy to hold on to power. In the past, the public could not easily access information of any kind: government files, statistics, explanations of procedures. Opacity made it hard for citizens to hold the state accountable and was the foundation of state power. That has changed dramatically. The current government's single greatest achievement in its first term was passing, in 2005, the Right to Information Act. This act gave citizens the right to request information from any public authority, which is required by law to reply within 30 days. The bill was the brainchild of Aruna Roy, a social activist, and had the full support of Sonia Gandhi, often against the wishes of other politicians in her party. Now, civil-society groups are able to challenge New Delhi and local governments on a whole range of issues, from corruption to the environmental impact of industrial policies. Many in government claim that New Delhi's paralysis is due to the fact that any new policy or reform is challenged at every turn and in every forum.

Finally, power in India is more decentralized than ever. In small steps, more functions are being transferred to local governments. For example, the program of the National Rural Employment Guarantee Act is administered by village councils, which can decide what projects to pursue and better ensure that workers actually show up to the job sites. But many procedures, including the yearly financial allocations of the central government's Planning Commission, which develops five-year economic plans for the country, do not take this new reality into account, causing conflict and tension along the way.

The evolution of India's traditional culture of governance has yet to work itself out. This is a process long in the making, and it will go on for some time. No one in the political class, not in the Congress or in the BJP, has quite figured out how to harness it. For its part, the Congress party will have to make drastic changes, first by putting a greater premium on performance and by purging a whole range of committee members and cabinet ministers. The party has a sufficiently centralized structure to be able to switch course swiftly, if it so decides. Second, it needs to restore authority to the office of the prime minister. Real power now lies in the hands of the Gandhi family. But on the books at least, Singh is the one tasked with the responsibility for governance. In other words, when something goes wrong, the wrong actor is held accountable. Singh is called ineffective while the real power brokers carry on.

The silver lining for the Congress is that the BJP is struggling with succession and organizational issues of its own. The BJP chapters in Karnataka and Rajasthan are in open revolt against the central leadership and may well defect. And recently, the party has not been able to articulate a coherent ideology. The next major face-off between the Congress party and the BJP will be the general elections in 2014, which is still a long way off. The side that understands that India is fundamentally changing and that old modes of governance no longer work will have the best chance of winning.

India's economic future depends on the country's politics, and that is both good and bad news. True, India's politics will often be mired in brinkmanship and inefficiency. But Indian politicians have a remarkable capacity for reinvention. They can rapidly change course when need be, and there is nothing like a crisis to concentrate their minds. It is difficult to imagine that the entrepreneurship India has unleashed, the growing strength of its civil society, and the sense of hope among India's poor for a better future will remain stymied for long. The anxiety among India's politicians is, in part, a recognition that something new is taking shape.

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Deterrence Lessons From Iraq

Rationality Is Not the Only Key to Containment

Amatzia Baram

As Iran continues its pursuit of a nuclear capability, outside observers have debated just how worried the world should be. Optimists argue that since nuclear war would be suicidal, no government would ever risk it, and they think the Islamic Republic would be no exception. Pessimists argue that Iran's radical and unstable regime might behave in unpredictable ways and cannot be trusted. Both camps seem to agree that rationality is the key to deterrence; they disagree over whether a nuclear Iran would be rational.

Unfortunately, things aren't that simple. The link between rationality and deterrence is less direct than people think, and what constitutes rational behavior for the leaders of a particular country can be hard to read. Deterrence, in short, is a more complex issue than generally assumed.

These points are brought home forcefully by a careful look at attempts to keep Saddam Hussein in check, something that the recent release of a massive amount of captured Iraqi records finally makes possible. As a result of the Iraq war, the United States gained possession of a priceless cache of documents, records of interviews, and even tape recordings of many meetings that shed invaluable light on Saddam's behavior—material that is now accessible to researchers at the Conflict Records Research Center, in Washington, D.C. Taken together with previously available information, what these records show is a leader who was extremely hard, occasionally even impossible, to deter, but for reasons that have little to do with irrationality.

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Containing Saddam was difficult, even though he acted according to a coherent set of self-interested preferences. This was because the Iraqi leader tended to ignore inconvenient facts and unpleasant information. He would repeatedly construct convoluted scenarios that allowed him to believe events would play out in the way that he wanted, even though others could see that such outcomes were highly unlikely. Rather than regard information about an opponent's intentions or even capabilities as givens, he would simply assert that they were what he wished them to be. And he treated learning the same way, drawing on his past experiences selectively, idiosyncratically, and only to suit his current purposes.

Groupthink and sycophancy played a role in Iraqi decision-making, the records show, but not as much as might have been expected. Although most of Saddam's advisers were willing to let his assumptions and assertions stand even when they recognized them to be too optimistic, there were usually at least some voices of dissent raised. At various key moments over the years, influential members of Saddam's inner circle challenged his delusional positions, and some even did so without suffering punishment, remaining trusted advisers and lieutenants. Yet Saddam would just ignore the objections or come up with a rationalization to explain them away. This pattern might have become worse over time; Saddam's self-proclaimed "victories" and his longevity in office appear to have made him ever-more self-confident, which in turn made him ever-more reckless.

Saddam's conduct of Iraqi foreign policy after coming to power in the 1970s was thus essentially one long game of Russian roulette. He managed to escape the ultimate penalty for decades, a record that only served to convince him further of his infallibility. In 2003, he spun the chamber once again—and this time a bullet came up.

THE 1970S AND 1980S

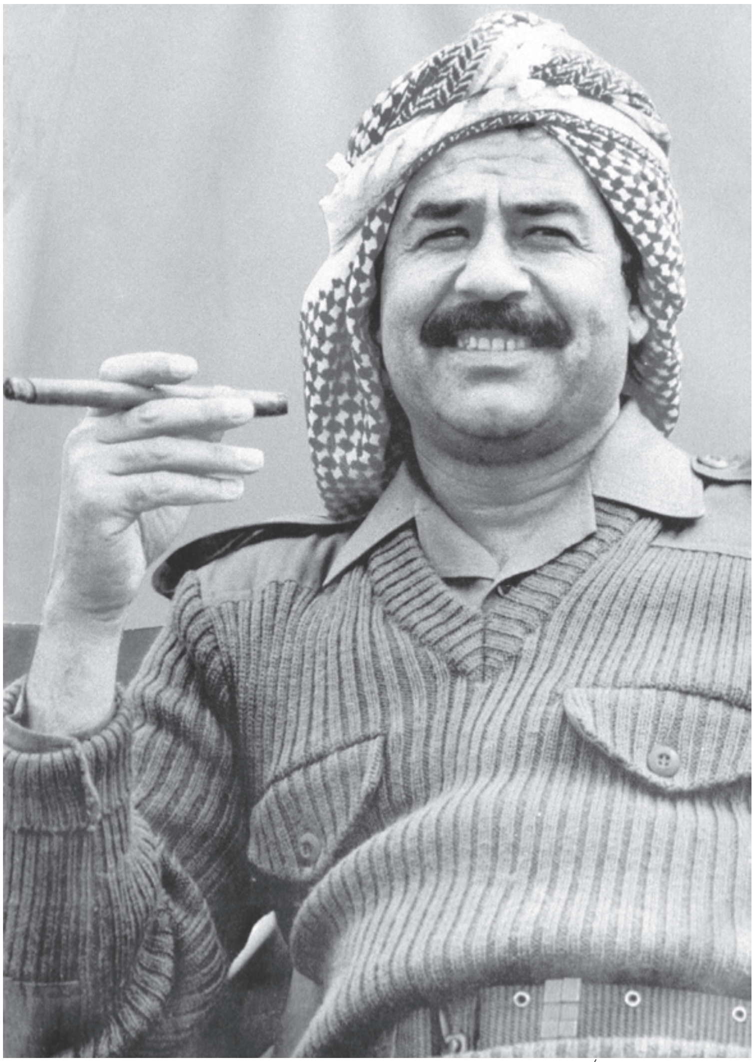
The clearest, most unequivocal episode in which Saddam was deterred—or, more properly, coerced—came early in his career. In 1975, the Baath regime was stuck in a difficult military campaign against Iraq's own Kurdish population. For Saddam, who was then vice president and already the most powerful man in the country, victory was crucial because it would eliminate the last obstacle to the regime's total control. The Kurds were resisting staunchly with the help of the shah of Iran, so Saddam sat down with the Persian monarch in Algiers and gave him everything he wanted in order to persuade him to stop backing them. Saddam's main concession was giving up Iraq's sovereignty over most of the eastern part of the Shatt al Arab waterway, which also implied abandoning demands for the independence of the Arab population of Khuzestan, in southwestern Iran. These were humiliating terms, and Saddam was scathingly criticized for accepting them by the rival Baath regime of Hafez al-Assad in Syria.

Saddam insisted that any campaign against Iran would be a cakewalk.

Five years later, a few days before he invaded Iran, Saddam revisited this decision at a meeting with his closest advisers. In 1975, he told them, he had given in to the shah because the Soviet Union had refused to provide him with more ammunition. Iraq was left with only enough artillery shells for one more day of fighting. The Iraqis knew that the shah was being lavishly supplied by the United States, and Iran was already sending whole artillery brigades into Iraqi Kurdistan. Iran and Iraq were on the verge of a war that Iraq could not win, and this profound military inferiority had forced Saddam's hand, making him show "flexibility."

Saddam may have backed down vis-à-vis Iran that time, but he did so in order to achieve what he considered a larger and more important victory over the Kurds, and his strategy worked. Without Iranian backing, the Kurdish forces collapsed in a matter of weeks, and Saddam was able to secure control over all of Iraq in a way that no ruler had since the days of the British-backed monarchy. As a bonus, the shah also ceased his (limited) support for Iraq's Shiite opposition. From Saddam's perspective, the deal was a good one, and his calculations throughout were rational and pragmatic.

Saddam may have given up the eastern Shatt al Arab for a reason, but he never reconciled himself to the loss, and his obsession with getting the territory back was one of the principal drivers of his decision to invade Iran five years later. The captured records do not yield a complete account of Iraqi decision-making in 1980, but they



GAMMA-RAPHO VIA GETTY IMAGES / FRANÇOIS LOCHON

What, me worry? Saddam Hussein, July 1983

do reinforce existing theories that Saddam had both defensive and offensive rationales for the attack. He feared the new Islamic Republic led by Ayatollah Ruhollah Khomeini and its potential to turn the unhappy Iraqi Shiite population against Baghdad. Defeating Iran would end that threat and remove an obstacle to Iraq's regional ambitions, as well as regain the territory lost at Algiers. The invasion was not an economic necessity, nor the solution to some domestic problem. Saddam's lieutenants warned him in the early summer of 1979 "not to be dragged" into war with Iran, and at that point he agreed. But once he had started thinking about reclaiming the eastern

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Shatt al Arab, he couldn't stop, and he rationalized his ambitions by ignoring possible drawbacks and conjuring up best-case scenarios.

On September 16, 1980, Saddam, now Iraq's president, met with his inner circle to share his plans. Iran would not reject the Iraqi demand to be allowed to repossess the eastern Shatt al Arab, he claimed, because if it did, there would be war, and Iran would lose badly. Most of those present concurred, but some, including his first cousin Ali Hassan al-Majid (later to earn the sobriquet "Chemical Ali"), did not. In response to Majid's challenge, Saddam grudgingly conceded that Khomeini might fight, but he continued to insist that if he did, any such campaign would be a cakewalk for Iraq: "When push comes to shove [the Iranians] are only humans. . . . They will have to be realistic and recognize the Iraqi victory." In the event, Saddam declared victory after six days of war even though the battles continued for eight more years. Saddam had grossly overestimated his own military's proficiency and underestimated Iran's nationalism, Islamic and revolutionary fervor, territorial advantages, and huge human reservoir.

During these same years, Saddam revealed a hatred for Israel and Jews more generally; he longed to play the part of a latter-day Nebuchadnezzar or Saladin and "liberate" the Holy Land. In the records, Israel appears regularly. For example, in a 1978 lecture at Al-Bakr University for Higher Military Studies, Iraq's staff college, he argued that Iraq needed nuclear weapons to enable a conventional victory against Israel. The Arabs might launch a new, concerted war against Israel, he noted, and if they did, Iraq would commit a large expeditionary force—but first the Arabs had to have a nuclear arsenal. Arab conventional forces would dominate, he predicted, but they needed nuclear weapons to neutralize any Israeli threat to escalate the conflict to another level.

In June 1981, Israel's air force destroyed Iraq's Osirak nuclear reactor. Israel prepared for a reprisal in the form of an Iraqi air raid, but Baghdad did nothing. Why not? In a discussion about the Israeli attack, neither Saddam nor any of his top advisers suggested retaliation. They did not explicitly note why, but it seems from the context that it was because everyone recognized it was just not feasible. Iraq was in the throes of an excruciating war with Iran, and they feared that

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opening a new military front would be unwise. Iraq's air force was fully engaged with Iran, and Baghdad did not yet have any medium-range missiles.

Admissions of Israel's conventional military excellence appeared throughout the 1980s. In September 1989, when the war with Iran was over and Iraq had a large army that was free for another adventure, Saddam's half brother Barzan al-Tikriti apparently learned of new war preparations. Fearing that his big brother was contemplating an attack on Israel, he warned him against it. If Iraq attacked Israel, he cautioned, "they can wipe us off the face of the earth." Saddam's response was to commit to rebuilding Iraq's nuclear program. Israel managed to deter Saddam in the short run, but he kept Israel's destruction as a long-term goal, putting it off until he could acquire nuclear weapons and had solved more urgent problems with his immediate neighbors.

THE GULF WAR

Far from teaching Saddam caution, Iraq's eventual Pyrrhic victory over Iran somehow reinforced his sense of his own infallibility. He emerged from the war with two big problems: massive debt and a huge military with nothing to do. In early 1990, he decided to use the latter to wipe out the former: he would invade his wealthy and defenseless neighbor Kuwait and so gain a deep-water harbor to boot.

As tensions in the Persian Gulf mounted that summer, the U.S. ambassador to Iraq, April Glaspie, gained an audience with Saddam. Many Americans have blamed her for failing to use this opportunity to deter him, but the evidence suggests that there may have been nothing she could have done. When they met, on July 25, 1990, they talked past each other. Saddam informed Glaspie that he intended to resolve his differences with Kuwait one way or another. Glaspie never believed that Saddam intended to invade Kuwait, and although she warned him that the United States "can never excuse settlement of disputes by other than peaceful means," she also assured him that when it came to the issue of the border between Iraq and Kuwait, the United States "took no position on these Arab affairs." The mixed message did not convince Saddam that the United States would definitely intervene, but the records show that he did believe some American military response was likely. He went ahead with the invasion anyway.

Saddam boasted in one closed-door meeting that even his minister of defense and the chief of staff of the armed forces (as opposed to the elite Republican Guard) did not know about the invasion until it was under way. The leaders of the Baath Party were more privileged: they were told four hours before the invasion began that it would include the whole of Kuwait rather than the small portion that had previously been discussed. The officials were confused: Tariq Aziz, one of Saddam's closest advisers and then Iraq's foreign minister, would note years later that at this point he asked, "Why?" Saddam replied, "Because it makes no difference," and that was that.

Iraq's military moves during the invasion, including erecting defenses at Kuwait's airfields and along its beaches within hours after the assault had begun, show that Saddam thought the United States might counterattack immediately to prevent him from digesting his prize. Indeed, in a meeting with commanders on August 7, five days after the invasion, he thanked God for allowing him sufficient time to prepare for a U.S. counteroffensive. So why wasn't he deterred from invading in the first place? According to the records, because he was confident that he could defeat the United States even if it did take action against him. As he put it to Glaspie, "Yours is a society which cannot accept 10,000 dead in one battle." He convinced himself that any U.S. response would be limited to airpower and that he could make the United States desist by attacking U.S. bases in the Gulf.

After Saddam seized Kuwait, the United States made multiple efforts to convince him to withdraw (a form of compellence) and to deter him from taking particularly dangerous and destructive actions during any subsequent conflict. These efforts mostly failed.

On January 9, 1991, for example, U.S. Secretary of State James Baker met with Aziz in Geneva and presented him with a letter to Saddam from President George H. W. Bush. Baker demanded that Iraq withdraw from Kuwait or face war, and warned that if war came and Iraq destroyed Kuwait's oil facilities, mounted terrorist attacks against the United States, or used chemical or biological weapons, "the American people will demand vengeance and we have the means to exact it. . . . It is a promise."

U.S. DEPARTMENT OF DEFENSE/JIM GORDON

Busted: sculptures of Saddam taken down from his palace, Baghdad, 2005

In subsequent weeks, Iraq did not withdraw from Kuwait, prompting an intervention by a 34-country coalition led by the United States. Iraq also tried to mount terrorist attacks against U.S. targets (to little avail) and destroyed vast amounts of Kuwait's oil infrastructure. The only one of Baker's deterrent threats that Saddam heeded was the demand to not use chemical or biological weapons against the coalition. The American warning did not differentiate among these matters, but Saddam did.

Iraq's media would explain that for Saddam, a peaceful withdrawal from Kuwait was out of the question because it would have been unmanly and humiliating; his "tribal honor" prevented him from taking such a course. Such factors may have played a role in the decision not to back down, but something else was more important. Saddam was convinced that if he ordered a peaceful withdrawal, he would lose the respect of the Iraqi people, including the elites on which his regime relied to remain in power.

Having decided that withdrawal was out of the question, however, Saddam then had to rationalize away the risks involved in remaining in Kuwait, and that meant conjuring up reasons why the Americans would never attack and why they would lose if they did. The latter was easy: he simply prevented his generals from reporting pessimistic conclusions to him and fired any who did. As a result, according to various Iraqi generals, Saddam believed that his well-dug-in, million-strong army was robust enough to bleed the coalition forces white. Iraqi sources indicate that by the start of the war, Saddam had deployed 55 of his 66 divisions to the Kuwaiti theater, dug them in deeply and supplied them with plentiful reserves of artillery and armored vehicles, and put the Republican Guard in depth behind them all—the same lineup that Iraq had learned to use to stymie Iranian offensives in the 1980s. He felt that this was enough to guarantee a bloody stalemate, which the effete Americans would not be able to long endure. In a highly classified meeting on January 13, 1991, two days before a UN Security Council ultimatum for Iraq to withdraw was set to expire, Saddam was elated. He assured his officers that the U.S. Air Force didn't know where it was flying and asked rhetorically in regard to a ground offensive whether "the Americans [would] be able to do anything if [the Iraqis] captured 20,000 of them."

Saddam chose the threats that he wanted to respect, which were only the ones not central to his most important plans.

All along, Saddam also continued to insist that the United States lacked even the intent to fight him. At a Revolutionary Command Council meeting in late October 1990, for example, he claimed that although there might be large numbers of U.S. troops in Saudi Arabia, Washington remained diffident. He dismissed a recent American announcement that the United States was deploying an additional 100,000 troops to the region. Aziz, the regime's leading specialist on the United States, pointed out that such a declaration represented a commitment to war. He explained to Saddam that the U.S. administration could not back down now without losing face domestically, and therefore, having sent so many troops, the United States had to go to war. Saddam was unconvinced, arguing that the chances of a U.S. assault were no more than "50-50."

As for the United States' demands that he refrain from terrorist attacks and the destruction of Kuwait's oil wells, Saddam appears to have dismissed these because they were inconvenient for his plans, telling himself that Washington either couldn't or wouldn't follow through on its threats. He both encouraged and paid a wide range of Arab terrorists to conduct attacks for him in the hope that this would convince Western publics to give up the fight, and he began destroying Kuwait's oil wells in February 1991.

Unconventional warfare is a more complicated story, however. The records suggest that despite the deliberate vagueness of the warnings that Baker and Bush had made about exacting "vengeance," Iraq's leaders may have feared an American nuclear response if they employed chemical weapons, in part because Iraq had long tried to equate its own chemical arsenal with the United States' and Israel's nuclear forces. In one conversation among the top leadership in the fall of 1990, Aziz reminded his colleagues that it was their policy that Iraq would not use chemical weapons unless it was attacked by nuclear ones. Similarly, at another secret meeting around the same time, Izzat al-Douri, Saddam's right-hand man, insisted, "It is dangerous for us to reveal our intentions to use chemical weapons. We should not do that." Aziz then added that if they did, they "would give [the Americans] an excuse for a nuclear attack." At that meeting, Saddam did not completely rule out the chemical option and reported to his subordinates that Iraq had new and extremely lethal chemical weapons. And yet he sounded less than convinced that Iraq should be using such weapons. Deterrence thus seems to have succeeded in this case, but only partially. Saddam chose the threats that he wanted to respect, which were only the ones not central to his most important plans.

Saddam kept grasping at straws, and when there were no more straws to grasp, he made them up altogether.

The same held true for Iraqi actions toward Israel during the Gulf War. Israel promised to retaliate in great force against any Iraqi attack, but it did not provide details. Once again, Saddam read the threat in his own way. He knew the history of Israel's retaliations. A conventional attack would get Israel to retaliate conventionally; this was what Israel always did. And so he actually sought to provoke an Israeli response in order to break up the coalition, which included

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Arab countries. Saddam happily ignored the nebulous warning and attacked Israel with his modified Scud missiles, forgoing the use of chemical or biological weapons. As Saddam had expected, the Israeli government was apoplectic and wanted desperately to retaliate, but Saddam's plan was foiled when Israel was prevented from doing so by Washington.

THE 1990S AND AFTER

By 1994, Saddam faced numerous problems. He had held on to power after his catastrophic defeat during the Gulf War, but just barely. He had lost control of northern Iraq to the Kurds and faced a persistent Shiite insurgency in the south. The dinar was in free fall and the Iraqi economy a shambles as a result of the UN sanctions imposed after Iraq's invasion of Kuwait. Not surprisingly, Saddam faced a series of coup plots, and he was increasingly fearful for his own survival. The sanctions were killing his economy and with it his prestige, and he decided he had to make a move.

That summer, after he failed to convince the UN that Iraq had fulfilled all its obligations in regard to ending its weapons of mass destruction (WMD) program, Saddam publicly promised that if the sanctions were not removed soon, he would "open the granaries of the world" for the Iraqis by his own methods. In October, he began deploying four divisions of the Republican Guard toward Basra and Kuwait, just as he had done in July 1990 prior to the invasion of Kuwait. But this time, the United States responded immediately, reinforcing Kuwait with 30,000 troops and several hundred warplanes. Washington made it clear that if Saddam did not pull his troops back, the United States would destroy them, and Saddam quickly complied.

What explains this success? Saddam was somewhat vague as to why he decided to pull the Republican Guard back. All he said to his lieutenants was that "there were facts" that compelled him to do so. But he also told them that all he had wanted to do was to break the diplomatic logjam regarding the sanctions and let the French and the Russians, who had been friendly to Iraq, do the rest. Still, it seems hard not to conclude anything other than that Saddam

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had learned the lesson of 1990–91: the United States had demonstrated both the intent and the capability to obliterate his armed forces just three years before, and there was no way for him to rationalize that away—at least not with the memory so fresh in the minds of all Iraqis. Saddam had another course of action available to him, moreover, that might alleviate his problems: he could agree to sell oil under UN supervision and try to wear down international resolve in regard to the sanctions gradually over time. And that is the path he took. So the recipe for successful compellence was not simple: fresh memories of the Gulf War, plenty of U.S. forces in Kuwait combined with a graphic American threat, French and Russian advice to withdraw, and the existence of the oil-for-food program as a plausible alternative course.

As the millennium approached, Saddam played a double game. We know now that he eventually gave up his WMD capabilities. But he refused to come clean about this, trying to convince others that he had secretly retained a WMD arsenal. On some level, he believed it was essential to keep Iran fearful, but his domestic opponents were an even more important audience. He thought it was vital for him to keep the fear of his unconventional weapons hanging, like the sword of Damocles, over the heads of Iraq's rebellious Shiite population.

When the war clouds began to gather in 2002, Saddam continued to follow this approach, despite the pleading arguments of his subordinates that it wasn't working. At one meeting with his top advisers that year, most of those present, including prominent generals and influential leaders in the Baath Party and in the Revolutionary Command Council, felt that the only way to avoid a U.S. attack was full disclosure. Saddam allowed his lieutenants to express themselves but flatly rejected the idea. His argument was that Iraq had already been caught lying to the UN inspectors many times. If it were to disclose all the facts now, he argued, it wouldn't be believed. The inspectors would pocket everything the Iraqis gave them and then ask for more. As he saw it, there was simply no way out.

As the months passed and the Bush administration began to concentrate U.S. troops in Kuwait, the danger of a full-scale rematch, this time on Iraqi soil, became undeniable. Indeed, Iraqi intelligence provided quite good information on and analysis of the United States' buildup and likely strategy. And yet Saddam remained intransigent. He forbade his military intelligence to analyze American intentions, which were the specialty of the political leadership. It was obvious to almost everyone else on the planet that George W. Bush was determined to invade Iraq and overthrow his regime, but not to Saddam. Why not?

Because he seems to have begun to believe his own propaganda. Between 1991 and 2003, Saddam and the Iraqi media had pounded away at the theme that the Gulf War—what Saddam called the "Mother of All Battles"—had been a great Iraqi victory. There had been some military setbacks, it was admitted, but morally, the Iraqi side had won. The U.S. forces had stopped in their tracks before entering the populated areas of Iraq because they were deterred—by Iraq's WMD, by the spirit and ability of the Republican Guard, and by the heroism of the Iraqi population. In a closed-door meeting as early as March 1991, for example, Saddam told his lieutenants that although Iraq had been defeated from a technical point of view, it had not lost the war. The Prophet, too, he argued, was defeated, in the Battle of Uhud, but eventually he won his war, as would Iraq. And Saddam bestowed medals on his commanders and praised them for their heroism. All this created an atmosphere in which self-awareness and criticism became impossible.

In a March 2002 meeting, Saddam received a senior visitor who knew the United States well and had just met with American officials. The visitor warned in the most categorical way that the United States was getting ready for a massive "conspiracy" against him. Saddam responded by listing all the reasons Washington could do little against him and saying he was confident that he could handle it:

> We are confident and we are capable of defeating [the American conspiracy], and if we have to face it militarily, then we are prepared to do so. The Americans anyway as a military force are trying to avoid coming to Iraq. . . . The Americans, I think, are starting to face difficulties in Afghanistan, and . . . the Afghans are inflicting war casualties on them. . . . There will be a big problem when the American losses start mounting. . . . We are taking everyone into account militarily with different degrees. For Saudi Arabia, all the indications say that they

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> are not interested [in attacking Iraq], and the same for the Gulf countries. Kuwait is not capable of refusing the [U.S.] plan. . . . In our assessment, the Americans will not strike, or maybe they will strike only military targets. They will not take an action to change the regime at this time, at least not for a while, because this requires considering their risks as far as the impact on [world] public opinion for attacking two Muslim countries. Bush's relationship with his people regarding the conspiracy [against Iraq] is currently excellent, . . . but what he is saying [about regime change] requires much more time, and there are indications that his popularity is starting to diminish partially. Narcissism is disastrous and can cost a man the opportunity to be wise. . . . Our relations with the Arabs are generally good. . . . Our international relations are good. Our relations with Russia are good, as well as with China.

And so it went. Saddam kept grasping at straws, and when there were no more straws to grasp, he made them up altogether: The French and the Germans would prevent the Americans from going to war. The Russians would save him. The Americans would only bomb Iraq, as they did during Operation Desert Fox, in 1998, never daring to actually invade. They could not invade until after they withdrew from Afghanistan.

As a sideline, Saddam also beseeched God to save him because God owed him one. This came out in a bizarre secret letter he wrote to God in 2002 and ordered an aide to "send" to the Almighty by burying it, together with several hairs from his mustache as a sign of deep personal commitment, in a wall of the Mother of All Battles mosque. Indeed, Tikriti complained bitterly in a mid-2002 personal diary entry that his elder brother was a changed man. Saddam, he grumbled, behaved "like a hermit sitting in a sanctuary and worshiping [God]."

In Saddam's mind, unlikely but rational elements became fused with entirely fanciful calculations, allowing him to convince himself that a U.S. assault was unlikely and that if it came, he would still survive it. And all of this allowed him to rationalize doing what he wanted to do: refuse to come clean about Iraq's WMD and still not fear the destruction of his regime. It is not clear that the Bush administration would ever have been ready to accept yes as an answer to its demands. But that hardly mattered, because Saddam was unable to offer it.

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EXCEPTIONAL, BUT NOT UNIQUE

Even at the end, when he was finally found, filthy and unkempt, hiding in a spider hole in a rural area of Iraq, Saddam still could not perceive his own reality, proposing to "negotiate" with the U.S. soldiers who had captured him. It is hard to imagine what he could possibly have offered. But he clearly believed that he remained a towering figure who held all the cards.

This pattern of behavior made him an exceptionally problematic figure in international politics, but not necessarily a unique one. Other megalomaniacal leaders have evinced a similar willingness to distort reality to fit their own desperate needs, Hitler being a prime example.

Too often, meanwhile, debate over dealing with troublesome countries has centered on whether a given ruler or regime is rational, as if rationality implies reasonableness. Saddam was fully rational, in the sense that he could and did create a logical chain of how to get from point A to point B and achieve his goals, all of which were very much of this world. But the more one learns about him, the more one recognizes how delusional and reckless his thinking and behavior were in practice. He constantly sought to rationalize the pursuit of goals that were ultimately unobtainable or irreconcilable, and when anyone pointed out the flaws in his thinking, he simply dismissed the objections. This did not make him irrational—but it did make him very dangerous and very, very hard to deter.

The implications of the Iraq case for dealing with Iran and other problematic actors are unsettling. The one thing optimists and pessimists seem to agree on—that rational regimes can be counted on to act in predictable ways—turns out not to be true. So policymakers cannot base their decisions on judgments about what hypothetical rational actors would do in abstract situations. Instead, they need to rely on fine-grained, case-specific analyses of particular political figures and bureaucratic processes operating in particular, local contexts.

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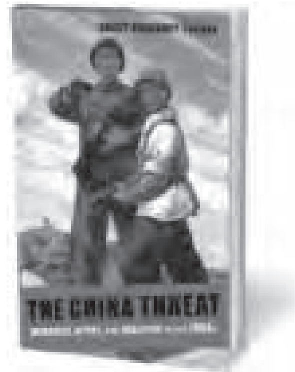

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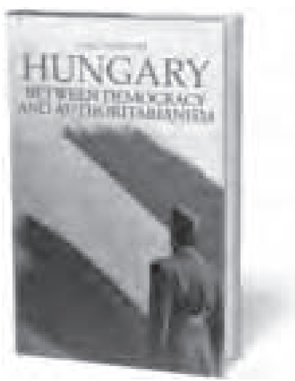

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How to Succeed in Business

And Why Washington Should Really Try

Alexander Benard

On October 19, 2011, the government of Afghanistan—acting in part on the recommendation of U.S. military advisers working with the Afghan Ministry of Mines—granted a license to the China National Petroleum Corporation (cnpc) to develop several oil fields in northern Afghanistan. Just three years earlier, another state-owned Chinese company, the China Metallurgical Group Corporation, won the rights to develop Afghanistan's Aynak copper deposit, one of the largest in the world, again with American acquiescence.

These economic wins for Beijing shocked many on Capitol Hill and in the broader policy community. Although it was no secret that China had been gobbling up strategically important resources in emerging markets, people wondered how a country that had not contributed to Afghanistan's transformation could now reap its mineral benefits—and how the country that had contributed more than any other could let it do so.

There should have been no surprise. The fact is that the United States has long lacked even the semblance of a strategy for competing with China in emerging markets. As a result, American companies are consistently beaten by Chinese ones in Central Asia, the Middle East, Africa, and even in nearby Latin America. Not only does the U.S. government offer American firms minimal help; at times, its own excessive regulations and reporting requirements actually discourage

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U.S. firms from entering new markets. Apart from occasional lip service, U.S. policymakers have so far shown little desire to marshal government power on behalf of the private sector.

This aversion to corporate diplomacy is bipartisan, although the motivation differs. Liberals fear corporate influence over government, whereas conservatives disapprove of federal meddling in the free market. To a certain extent, wariness is justified, although for a third reason: taken to the extreme, full-throated advocacy of the private sector by Washington would come off as economic imperialism and provoke resentment abroad.

But emerging markets offer high-return investments and access to crucial natural resources that the United States cannot afford to pass up, as well as promising opportunities to deepen relations with strategically important countries. The U.S. government can no longer sit idly by as Chinese state-owned companies gain control over one

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emerging market after another. If it does, U.S. businesses will lose out on many of these markets for the foreseeable future, hurting the country's economic and geopolitical interests.

Yet the game is not lost. Many developing countries are growing increasingly frustrated with Chinese business practices. At the same time, the U.S. government finally seems to understand the countours of the problem. The timing is thus ripe for the United States to get over its hang-ups about lobbying on behalf of American firms and rethink the way it helps them abroad.

DIPLOMACY, INC.

The U.S. government has not always been so timid in promoting commercial interests overseas. In 1794, Congress, in an attempt to defend merchant vessels from piracy in the Mediterranean Sea, commissioned six frigates "adequate for the protection of the commerce of the United States," creating what became the U.S. Navy. These ships were soon sent to attack North African pirates and free captive American merchants. The new navy protected U.S. merchant vessels from French corsairs in the Caribbean. And throughout much of the 1800s, U.S. naval squadrons patrolled the Mediterranean, the Caribbean, the Pacific, and the African coast, preventing the United States' enemies from inhibiting the flow of its goods.

American advocacy got even more aggressive around the early 1900s, when the government adopted "dollar diplomacy" as its guiding foreign policy principle. Washington encouraged U.S. investors to send capital abroad and foreign countries to stay open and hospitable to American businesses. It loaned money to foreign governments at generous rates, requesting that they provide special treatment to U.S. businesses in exchange. And it even used its military power to intimidate countries into adopting favorable trade policies: enforced by the U.S. Navy and the Marines, the Open Door policy ensured that China, with its vast mineral wealth and opportunities for large-scale construction projects, remained friendly to U.S. corporate interests.

In these early days, Washington encouraged U.S. companies to do business in far-flung parts of the world, and they could always count on their government for diplomatic and, at times, military support.

But in the second half of the twentieth century, the United States' priorities shifted toward strengthening ties among Western countries, containing the Soviet Union, and preserving global stability. Promoting commercial interests took a back seat. As for the U.S. private sector, when the world divided into separate U.S. and Soviet spheres of influence, entire markets were rendered off-limits.

The U.S. government became even less interested in commercial diplomacy after the fall of the Soviet Union. American leaders felt that government influence was no longer needed to further the interests of the private sector, and that as the world's sole superpower, the United States was above this sort of self-promotion.

The wars in Afghanistan and Iraq only heightened this reluctance. Eager to dispel claims that both invasions were favors to politically connected corporations, the George W. Bush administration went out of its way to shut down initiatives that smacked of U.S. business promotion. When Afghanistan opened up the Aynak copper deposit to foreigners in 2007, Afghan President Hamid Karzai, in a meeting with Bush, noted that a U.S. company had made a bid and said he hoped the company would "make it very far along" in the process—a diplomatic way of offering his support. Bush bristled and told Karzai that all the United States cared about was a transparent competition. Beyond that, it was up to Afghanistan to decide the winner.

The notion that the United States should focus only on transparency, that anything more would be inappropriate, has inherent appeal. But the country's competitors—China, India, Russia, and Europe—are already meddling. Washington's restraint, although well meaning, is entirely unilateral and thus only puts it at a disadvantage in emerging markets, where politics and business intertwine at every step.

FALLING BEHIND

Washington may be feckless at business promotion, but Beijing has grown expert at it. Adopting policies that recall those of the United States in the early twentieth century, China has spent the last 20 years busily locking down opportunities throughout Central Asia, the Middle East, and Africa, employing a variety of tactics in the process.

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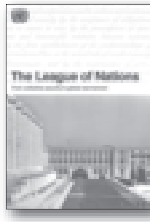
United Nations Publications

Human Development Report: Sustainability and Equity - A Better Future for All

This report examines the urgent global challenge of sustainable development and its relationship to rising inequality within and among countries. It strives to identify polices that would make development both more sustainable and more equitable. The integral relationship between inequality and unsustainability is recognized. The inequitably apportioned control and consumption of natural resources is a key driver of global warming — and yet those who will suffer most from climate change are disproportionately those least responsible for environmental deterioration. The report seeks to identify ways in which sustainability and equity can be jointly advanced. It examines long-term trends in inequality at national and global levels, and argues why it is essential to promote practices today that will both increase sustainability and reduce inequality for future generations.

Publisher: United Nations Development Programme
Publication Date: November 2011
ISBN: 9780230363311 Price: $40.00



The League of Nations: From Collective Security to Global Rearmament

In the wake of the First World War, at the Peace Conference at Versailles, US President Wilson called for the creation of a League of Nations for the purpose of affording mutual guarantees of political independence and territorial integrity to great and small nations alike. For the first time, conflicts between nations were a matter of global concern. Numerous key areas — social, economic and statistics, health, labour — were dealt with either directly by the League or indirectly by its specialized agencies. The League's lifetime (1919-1947) saw the creation of bodies that would be at the origin of the International Labour Organization, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization and the Office of the United Nations High Commissioner for Refugees. Their achievements were manifold and though some of them were "revived" as United Nations offices or specialized agencies after the Second World War, they were inherited from the League of Nations.

Publisher: United Nations
Publication Date: May 2012
ISBN: 9789211012484 Price:$22.00

Just Transitions: Exploration of Sustainability in an Unfair World

The theme of a just transition reconciles the sustainable use of natural resources with a pervasive commitment to sufficiency (where over-consumers are satisfied with less so that under-consumers can secure enough). It explores the perplexing logics of a range of different literatures and synthesizes them to illuminate new ways of thinking from a sustainability perspective. It rethinks development with a special reference to the greening of the developmental state, explores the key role that cities could play in the transition to a more sustainably urbanized world, and highlights the neglect of soils in the global discussions around the potential of sustainable agriculture to feed the world. Case studies drawn from the African continent detail the challenges, but they are set in the context of global trends. The authors conclude with their experience of building a community that aspires to live sustainably.

Publisher: United Nations University
Publication Date: March 2012
ISBN: 9789280812039 Price: $42.00

State of the World's Children 2012: Children in an Urban World

While cities have long been associated with employment, development and economic growth, hundreds of millions of children in the world's urban areas are growing up amid scarcity and deprivation. This publication presents the hardships these children face as violations of their rights, as well as impediments to fulfilling the Millennium Development Goals. It examines major phenomena shaping the lives of children in urban settings, including migration, economic shocks and acute disaster risk. It also provides examples of efforts to improve the urban realities that children confront and identifies broad policy actions that should be included in any strategy to reach excluded children and foster equity in urban settings driven by disparity.

Publisher: United Nations Children's Fund
Publication Date: February 2012
ISBN: 9789280645972 Price: $25.00

Green Economy and Good Governance for Sustainable Development: Opportunities, Promises and Concerns

Much of the debate on green growth and environmental governance tends to be general in nature, and is often conceptual or limited to single disciplines – such as green growth being dominated by economists and governance by political scientists. This book examines such terms within the context of wide-interest topics including education, oceans and cities, and mixes conceptual discussion with empirical research. It takes stock of the achievements and obstacles towards sustainability over the last 20 years, and proposes new ideas and changes to create a more sustainable future. Students, academics and professionals interested in the notion of using a green economy and good governance to achieve sustainable development and poverty eradication are recommended to read this book.

Publisher: United Nations University
Publication Date: July 2012
ISBN: 9789280812169 Price: $37.00

Climate Protection and Development

This book spells out, in more detail than usual, what can and should be done to avert the real risks of disaster. It summons us to an endeavour worthy of the resources and ingenuity of the twenty-first century - towards bold initiatives with big costs, and much bigger benefits. It explores the interconnected issues of climate and development, laying the groundwork for such a new deal. It presents a challenging agenda, and highlights the needs and perspectives of developing countries which may be unfamiliar or uncomfortable to readers in high-income countries. The unfortunate truth is that any large country, or group of mid-sized countries, can veto any global climate solution by refusing to participate, so a solution will only work if it works for everyone.

Publisher: United Nations and Bloomsbury Academic Publication
Date: July 2012
ISBN: 9781780931692 Price: $38.00

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For one, Beijing has used its massive foreign currency reserves to provide low-interest loans and other forms of financing to governments in the developing world, often in return for access to natural resources and infrastructure contracts. In the process, these emerging-market countries have become dependent on the Chinese government for their economic survival. China knows it and is not shy about wielding that leverage to obtain a lucrative contract, shape the structure of a resource sale, or freeze out Western companies. Before developing countries award mining rights or construction projects, China will often intervene in support of its firms through its foreign minister or even, in some cases, its prime minister.

Among its peers, the United States is by far the least aggressive in promoting commercial interests.

China also subsidizes its state-owned companies in their bids for natural resources, allowing them to offer far more attractive terms than U.S. companies can. I saw this firsthand last year, when my firm advised a Western company competing against CNPC for several oil fields in northern Afghanistan. CNPC offered the Afghan government 15 percent of all revenues derived from these fields and was prepared to go higher, as well as offering other terms that would have made it nearly impossible for CNPC to profit from the investment. But as is the case with many natural resource investments made by China's state-owned companies, the motive was not to make money; rather, it was for the Chinese government to capture valuable resources to fuel the country's economic rise.

Another Chinese tactic is to bundle major infrastructure investments with natural resource bids by its state-owned companies. In 2008, for example, as part of a state-owned company's proposal for the Aynak copper mine in Afghanistan, the Chinese government promised to build a railroad and several major roads in the area. Later, when CNPC competed for oil resources in northern Afghanistan, it proposed building a large road and a massive oil refinery that, by all accounts, would far exceed what Afghanistan's meager reserves require. But the Afghan government was happy to accept the investment.

These tactics have served China well. In Africa, Chinese trade and investment have skyrocketed, from around $10 billion per year ten years ago to over $120 billion today. Chinese companies are striking over $50 billion worth of infrastructure deals there annually, signing dozens of lucrative hydrocarbon and mineral contracts as well. Beijing is also targeting Central Asia, where major state-owned Chinese companies are rapidly expanding their presence even in countries outside China's traditional sphere of influence. In the past few years, for example, Beijing has lent $4 billion to Turkmenistan for the rights to develop the country's largest gas field for 30 years; offered $10 billion to Kazakhstan in exchange for permission for a Chinese company to buy one of the country's largest oil producers; and bullied Kazakhstan, Turkmenistan, and Uzbekistan into approving a major gas pipeline that Russia and Europe oppose. Historically, these countries have fallen under Russia's influence, but now China is busy erecting pipelines on their soil and extracting oil, gas, copper, iron ore, lithium, and rare-earth elements from beneath it.

China is not the only country vigorously pursuing commercial diplomacy. Brazil, India, and Russia regularly throw their political weight behind their powerful state-owned companies, too. The United States lags behind even its European friends. The United Kingdom's foreign ministry has officially declared the promotion of British firms as a top foreign policy priority, and French President Nicolas Sarkozy regularly invites the CEOs of major French companies along during his international travels. In certain markets, German diplomats spend the bulk of their time accompanying German business executives to meetings with foreign government officials and working behind the scenes to give German companies a leg up. Indeed, throughout Central Asia, the German government pays professional lobbying firms to work alongside its diplomats. Among its peers, the United States is by far the least aggressive in promoting commercial interests.

A CHANCE TO COMPETE

Beijing may have taken the lead in commercial diplomacy, but Washington can catch up if it changes course now. Many countries in the developing world are growing resentful of China's domination over their economies, and some are looking to diversify their relationships—an opportunity the United States should exploit. In private meetings, Kazakh officials have admitted that they are starting to take strategic diversification into account when evaluating foreign bids. Mongolia, meanwhile, has excluded Chinese companies from investing in several of its coal and copper mines and is trying to break existing contracts for other resources with Chinese companies so that it can bring in more Western ones.

Developing countries are also increasingly frustrated with Chinese business practices. Chinese companies have earned a reputation for using their own (imported) laborers instead of hiring locals, ignoring environmental considerations, and employing subpar technologies. And when it comes to less high-profile projects, the firms are likely to lack relevant experience, since Chinese officials see these as a chance to dole out favors to politically connected companies that may be technically unqualified.

To make matters more complicated, sometimes the attractive economic terms offered by Chinese businesses turn out to be illusory. For example, a Chinese company might offer a government a far higher percentage of future revenues for the lease of an oil field than will a U.S. company (say, 20 percent versus 10 percent). But then, the winning company will use inferior technology to cut costs—two-dimensional rather than three-dimensional seismic surveying, for instance, or outdated rigs and drills. As a result, the operation will end up extracting less oil than the Western one would have and sometimes will even permanently damage the reservoir. The 20 percent royalty rate applies to a smaller pie—and may come with a higher cost.

Chinese companies also take much longer to extract resources than their Western counterparts. Most Chinese oil, gas, and mining firms operate at the behest of the Chinese government, which cares more about securing long-term access to natural resources than maximizing profit. So they may move slowly on purpose to save the resource for later, when Chinese demand for it has increased. When a mining or drilling operation lies dormant for years, the host country earns no revenue at all.

China's corporations also sometimes try to renegotiate the original terms of agreements once they have established a presence on the ground. At that point, it becomes difficult—politically, legally, and logistically—for the host governments to revoke the contracts and sell the resources to someone else, especially if Beijing, as it is wont to do, applies additional pressure during the renegotiations.

American companies would have a much harder time getting away with such behavior. They are accountable to boards of directors and public shareholders and must publicly disclose their dealings, requirements that make a strategy of over-the-top promises followed by blatant contract violation nearly impossible. They use superior technologies that can find and extract more resources and cause less damage to reservoirs and mines. And they are motivated purely by profit, which aligns their incentives with those of the host governments and gives them reason to develop the resources quickly.

It is no surprise, then, that emerging-market countries are hungering for more investment from the West, particularly from the United States. As any U.S. businessperson who has worked in emerging markets will confirm, officials there are eager to roll out the red carpet for U.S. companies and investors. The American brand is still strong, and the presence of U.S. businesses in these countries is still perceived as the ultimate validation of their commercial legitimacy, as well as a step toward stronger ties with the U.S. government itself.

CUTTING THE RED TAPE

By overplaying its hand, China has given the United States a good chance to compete. To take advantage of the opportunity, however, Washington must entirely rethink the way it promotes U.S. businesses abroad.

There are signs that it is starting to do so. Secretary of State Hillary Clinton has highlighted "economic statecraft" in recent speeches, and in February, she hosted a two-day conference on "jobs diplomacy," saying, "we will not rest until the U.S. government is the most effective champion of business and trade anywhere." But past officials have made similar promises, only to see the resulting initiatives fizzle out. If Clinton wants to make sure her efforts actually last, she will have to launch a top-to-bottom reexamination of U.S. commercial diplomacy across all parts of the government.

As it stands now, the Commerce Department generally takes the lead in facilitating U.S. business activities overseas, but other parts of the government, including the State Department, are supposed to be involved, and an interagency process exists to coordinate all the players. The reality, however, is that these departments and initiatives are low level and are strewn across the bureaucracy, with various offices sometimes working at cross-purposes. Furthermore, the U.S. government program that allows American companies to request Washington's help in particular transactions is complicated, arduous, and usually results in little more than a letter from a U.S. agency to its foreign counterpart—hardly vigorous advocacy. These various initiatives need to be consolidated into a single office, housed in the State Department, that can coordinate efforts across all the relevant agencies and departments.

China has managed to plant its commercial flag even in countries that are U.S. allies.

Washington must also rewrite the rules that guard against favoring certain U.S. companies over others. The guiding principle behind these rules should be simple: if a company meets certain eligibility criteria and is the only U.S. company bidding for a project, it should get government support; if multiple U.S. companies are competing, then the government should find a way to promote all of them, rather than none.

U.S. diplomats must also become more nimble advocates for U.S. businesses. Today, the State Department generally fails to inform foreign governments about the benefits of working with U.S. companies and the drawbacks of doing so with their Chinese counterparts. Promoting U.S. business interests should be part of ambassadors' job descriptions, and they should be evaluated on how well they do it. Diplomats should highlight the United States' superior technologies and business practices, convey the importance of strategic diversification, and, in particular, explain that higher royalty percentages do not guarantee greater revenue. For large projects, the secretary of state should weigh in.

Diplomats should also spend time convincing their host governments to level the playing field between Western companies and Chinese ones. Right now, many deals are simplistically structured, favoring the bidder offering the highest royalty rate on a resource or, in the case of an infrastructure project, the lowest cost. Processes such as these inevitably favor inferior companies that employ no locals. Washington needs to deliver the message that when awarding contracts, officials should take into account such factors as the company's technological prowess, its environmental track record, and its plans for local employment.

Another area for improvement is the United States' confusing and cumbersome web of regulations. The Foreign Corrupt Practices Act (FCPA), which outlaws bribing foreign officials, and the Treasury Department's Office of Foreign Assets Control, which enforces economic sanctions, place immense burdens on U.S. businesses in emerging markets. Today, businesses often don't know the answer to such basic questions as what qualifies as a foreign official, how responsible a U.S. company is for the actions of its local partners, and what constitutes knowledge that bribery has occurred. Things have only gotten more confusing since the Obama administration decided to step up its enforcement of the FCPA, prosecuting twice as many cases in 2010 as it did in 2009. The government needs to issue clearer guidelines regarding exactly what types of conduct are and are not covered by these regulations, as it has indicated that it may do later this year.

At the same time, the U.S. government should try to find ways to derive strategic value from its regulations. For example, it should push countries to require bidders for projects to have in place strict anticorruption procedures, which would give already compliant U.S. companies an advantage over Chinese ones. Indeed, Chinese businesses are among the most corrupt in the world; a recent report from Transparency International ranked them more likely to pay a bribe than anyone but their Russian counterparts. And for other regulations concerning everything from construction to telecommunications, Washington should also try to make U.S. standards the international norm. Doing so would not only help developing countries by ensuring top quality and best practices; it will also tip the scales in favor of U.S. firms, which by default already comply with such standards.

Finally, the United States must make it easier for U.S. companies to partner with government agencies that disburse foreign aid. Chinese companies routinely coordinate with the Chinese government to bundle commercial proposals with aid projects, thereby enhancing the

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perceived value of their bids. For example, a Chinese company will bid on a coal mine and pledge to build a major highway, too. Infrastructure investments like these take the form of aid and so are financed by the Chinese government. But the Chinese company can still take credit for the highway to make its bid look more attractive. It is very difficult for U.S. companies to do the same, and this must change. U.S. aid agencies should allow themselves to coordinate more with the private sector, so that American firms can make reference to aid projects in their bids or bundle their bids with proposals for USAID development projects. Only then would Washington be deriving commercial value from its aid budget.

NO TIME FOR TIMIDITY

The United States has many competing foreign policy interests: national security, human rights, the rule of law, and so on. The country cannot revert to the days of dollar diplomacy, when all of these interests were subordinate to those of big business. Indeed, as China itself proves, such an approach can backfire.

But the pendulum has swung too far in the other direction. For too long now, Washington has almost entirely neglected commercial diplomacy, ceding too many economic battles to China. The consequence of such timidity has been that the United States' rising competitor has managed to devour market share in emerging economies throughout the world, securing strategic resources, winning infrastructure contracts, and planting its commercial flag even in countries that are strong U.S. allies. The United States needs to find a happy medium in which business promotion again becomes a strong pillar of its foreign policy, although not its sole focus.

The declining popularity of Chinese companies in the developing world has given the United States an opening to regain the initiative in these critical markets. Developing countries are eager to work with U.S. firms, so Washington needs to clear away the red tape that prevents them from doing so. Any reforms will likely be met with political and bureaucratic opposition. But perhaps the weakness of the U.S. economy, if nothing else, will finally help convince the country's leaders that it is well past time to make such changes.

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Cleaning Up Coal

From Climate Culprit to Solution

Richard K. Morse

Coal, the rock that fueled the industrial age, is once again remaking the global energy landscape. Over the past decade, while most of the world stood transfixed by the gyrations of the oil markets, the promise of alternative energy, and the boom in cheap natural gas, coal left all other forms of energy in its dust, contributing nearly as much total energy to the global economy as every other source combined.

That explosive increase in coal use came not from the developed world, where demand is plateauing, but from the developing world, where the fuel remains the cheapest, most reliable source of electricity. This year, the market in globally traded coal used to generate electricity is expected to reach 850 megatons—twice the total in 2000. If current trends continue, according to the International Energy Agency (IEA), China and India alone will drive 75 percent of the growth in coal demand before 2035, and coal will become the world's single largest source of energy before 2030.

But just as coal is remaking energy markets, it is also remaking the climate. Coal combustion is the world's largest source of carbon dioxide emissions, responsible for almost 13 billion tons per year. (By comparison, oil and natural gas account for 11 billion tons and 6 billion tons, respectively.) With demand for coal ballooning in Asia, between 2010 and 2035, fully half the total increase in global carbon dioxide emissions from fossil-fuel use will come from coal use in the region. The climate problem, in other words, is a coal problem.

For the last two decades, economists and diplomats have tended to favor one solution to that problem: putting a price on carbon dioxide

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emissions, which would allow markets to find the cheapest route to a cooler climate. But so far, doing what may be economically optimal has proved politically infeasible in most economies. Another strategy, promoting renewable power, is a necessary part of solving the climate problem but will not be enough on its own. Developing economies are adding new coal plants on a scale that still dwarfs the contribution of renewable energy, and those plants will continue churning out more and more emissions for decades to come.

Coal, despite the proliferation of clean-energy policies, is not going away anytime soon. As of 2010 (the most recent year with available data), 30 percent of the energy used in the world came from coal, second only to oil, at 34 percent. Most of this coal is used in the power sector, where it accounts for more than 40 percent of global generation capacity—a larger share than any other form of energy.

Given how dominant coal is, one of the most promising ways to fight global warming is to make it emit less carbon dioxide, a solution that is less elusive than commonly thought. Merely installing the best available technologies in coal plants in the developing world could slash the volume of carbon dioxide released by billions of tons per year, doing more to reduce emissions on an annual basis than all the world's wind, solar, and geothermal power combined do today. And advanced technologies now in the works could someday allow coal to be burned without releasing any carbon dioxide into the atmosphere.

In order for these innovations to materialize, multilateral banks will have to offer financing, and individual governments will have to fund research and encourage private investment. Efforts to clean up coal should not replace a more comprehensive climate policy that includes putting a price on carbon and promoting renewable energy. But absent the unlikely event of a sudden global consensus on pricing carbon dioxide, they are one of the most practical ways to make immediate progress in the fight against global warming.

COAL FEVER

In order to confront the coal problem, it is important to understand how the fuel became so popular in the first place. Although coal is often cast as an environmental villain today, just four decades ago, it

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seemed the obvious answer to some of the developed world's most pressing political and economic challenges. The oil crises of the 1970s showed industrialized countries that disruptions in the supply of petroleum could send shockwaves not only through their transportation systems but, because much electricity was generated by burning oil products, through their power sectors, too. So they rushed to replace cartel-controlled oil with abundant, cheap coal.

Between 1980 and 2000, countries that were members of the Organization for Economic Cooperation and Development (OECD) increased the use of coal in electricity generation by 61 percent and reduced the use of oil in that sector by 41 percent. Formerly dispersed in niche regional markets, the international trade in coal grew into a sophisticated global commodities exchange and quadrupled in size. Stable, diversified networks of suppliers offered coal-importing countries low energy costs and enhanced energy security. No longer were electricity prices vulnerable to instability in the Middle East. Swapping oil for coal paid handsome dividends.

By the 1990s, however, natural gas had emerged as a competitive alternative for generating electricity in the developed world, and the coal fever that had been gripping Western capitals started cooling off. Between 2000 and 2008, the use of coal for power generation in OECD countries grew by only four percent, while the use of natural gas increased by 55 percent. Coal's future in the developed world looks bleaker every year. Today, experts predict that coal demand in the OECD countries will remain flat, and may even shrink, from now until 2035. In the United States, coal is losing market share thanks to newly cheap natural gas (a consequence of the shale gas boom) and tighter federal pollution regulations. In Europe, the main threat to coal comes from environmental policies. The capstone of the EU's climate policy, the EU Emissions Trading System, which was launched in 2005, has caused countries to shift to cleaner natural gas. Renewable-energy mandates, meanwhile, have also started pushing coal out of the market.

The rest of the world is racing in the opposite direction. Whereas industrialized countries once embraced coal to diversify their energy supplies, by the 1990s, the developing world was turning to it to answer a different problem: poverty. Rapidly growing economies needed more and more electricity, and coal was the cheapest and most practical way to

REUTERS

Dirty rock: a coal miner showering, Shanxi, China, May 2009

get it. It was not the cleanest energy source, to be sure, but developing countries saw pollution as a cost worth incurring in order to obtain the benefits of a modern economy. As the Indian economist Rajendra Pachauri, chair of the Intergovernmental Panel on Climate Change, has asked, "Can you imagine 400 million people who do not have a light bulb in their homes?" He continued, "You cannot, in a democracy, ignore some of these realities. . . . We really don't have any choice but to use coal."

As the developing world keeps growing, coal will remain its fuel of choice. The IEA expects coal demand in non-OECD countries to nearly double by 2035 if current policies continue, with Chinese and Indian demand alone accounting for more than 80 percent of that growth. Indonesia, Vietnam, and much of the rest of Asia are also rapidly building new coal plants. The coal markets of Asia are thus at the heart of the global-warming problem.

The case of China, the world's biggest carbon emitter, demonstrates just how hard it is to give up the fuel. The country's reliance on coal is becoming increasingly costly. Over the last five years, as demand for coal has risen while supply has struggled to keep up, Chinese coal prices have skyrocketed. Meanwhile, tightly regulated electricity prices have not been allowed to rise in parallel. Pricing has become so distorted that at many points, a ton of coal has cost more than the value of the electricity it could create. China's dependence on coal is not only an expensive habit but also an environmental hazard. In addition to emitting carbon dioxide and sulfur dioxide, coal combustion creates mountains of toxic ash that are swept up in storms and blanket cities with particulate poison. That pollution is increasingly drawing the ire of the Chinese public and has even sparked protests.

Beijing is making every effort to kick its coal habit. The government has set a target of deriving 15 percent of the country's energy from nonfossil fuels by 2020 (the current figure is eight percent), with nuclear and hydroelectric power likely to make up most of the difference in the electricity sector. It has given generous subsidies to wind and solar power, industries that have made strong gains in recent years. Beijing is also focusing on improving the efficiency of coal-fired power generation by funding state-of-the-art engineering research and shutting down older, dirtier coal plants. As a result, the average Chinese coal plant is already far more efficient than the average American one.

These policies have started to curb China's coal addiction, but they are fighting an uphill battle against ever-increasing energy demand. Coal's share of new electricity capacity in China dropped from 81 percent in 2007 to 64 percent in 2010, but the figure rose to 65 percent in 2011, proving that the march toward alternative sources of energy will not be linear. Last year, droughts reduced hydroelectric output and caused severe power shortages. China's central planners no doubt see coal plants as the only available way to maintain the stability of the electrical grid, especially as the country relies more on wind and solar power, the outputs of which are intermittent.

Moreover, new technologies that can convert coal into more valuable liquid fuels, natural gas, and chemicals could stymie progress toward a coal-free future. When oil prices have been high, China has flirted with large-scale investments in these technologies. Although the resulting fuels can be less environmentally friendly than gasoline, in a world of $100-a-barrel crude oil, the economics get more tempting every year.

If China keeps up its efforts at diversifying its energy supply, coal's share of total electricity capacity there might drop one to three percent each year before 2020. After that, it could fall faster as nuclear power and natural gas gain a stronger foothold. But even then, it will be difficult for China to get less than 50 percent of its electricity from

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coal by 2030. Like it or not, coal will remain the dominant fuel in China and the other emerging Asian economies for quite some time.

EFFICIENT ELECTRICITY

FORTUNATELY, a coal-fired future can be made cleaner. In order to prevent emissions from rising as fast as the demand for coal, developing countries need to install advanced clean-coal technologies on a large scale. To do so, they will need help from the developed world. The countries of the OECD should work with international institutions such as the IEA and the World Bank to provide expertise on the latest clean-coal technologies and the financing to pay for them. In the short run, they should focus on helping the developing world upgrade its existing coal plants and build more efficient new ones.

The world's existing coal plants are the low-hanging fruit. Simply improving basic maintenance and replacing old turbine blades can make coal plants two percent more efficient and emit four to six percent less carbon dioxide. Those reductions can add up. If China were to make just its least-efficient coal plants two percent more efficient, the country would slash emissions by an estimated 120 megatons annually—nearly as much as the United Kingdom emits every year.

Opportunities for simple upgrades are ripe across most of Asia, and such improvements typically take little time to pay for themselves. To put them in place, all that developing countries need from the rest of the world is engineering know-how and modest financing. International organizations such as the IEA Clean Coal Center, a research institute that offers expertise on how to affordably reduce coal-plant emissions, ought to be expanded. Developed countries should consider such efforts part of their foreign aid strategy.

The next big opportunity is to change the type of new coal plants that get built. Much of the world is still constructing what the industry calls "subcritical" plants, which operate at low pressures and temperatures and are thus inefficient. As a result, the average efficiency of the world's coal plants is around 30 percent, meaning that 70 percent of the potential energy in the coal is lost as it gets converted into electricity. More efficient "supercritical" coal plants, which burn at higher temperatures, can achieve efficiency levels of around 40 to 41 percent; even hotter "ultra-supercritical" plants can reach levels of 42 to 44 percent. Within ten years, advanced plants that can operate at still higher temperatures will hit the market with efficiency levels approaching 50 percent. So, too, will new plants that boost efficiency by gasifying coal before burning it.

Replacing old coal plants with state-of-the-art ones would cut carbon dioxide emissions drastically, since every one percent gain in efficiency translates into a two to three percent reduction in carbon dioxide emissions. Given how much of the world's electricity is generated at outdated coal plants, collectively, those gains would be massive. If the average efficiency of all coal plants in the world were boosted to 50 percent, emissions from coal-fired power would fall by a whopping 40 percent. At current emission levels, that amounts to three billion fewer tons of carbon dioxide annually, equivalent to more than half of what the United States releases every year.

More efficient plants make long-term economic sense. Although a 750-megawatt ultra-supercritical plant costs around $200 million more to build than does a subcritical plant of the same size, by saving coal, power companies can recoup these expenses over the lifetime of the plant. The economics are such that the carbon dioxide reductions end up paying for themselves; if one were to calculate the abatement cost, it would come out to around –$10 per ton. As a point of comparison, under California's cap-and-trade system, companies have to pay around $15 to emit one ton of carbon dioxide.

The problem, however, is that cash-strapped utilities in the developing world don't have the funds on hand to realize these gains over the course of several decades. Multilateral development banks do, and so they should step in to finance the additional capital costs of building highly efficient coal plants. The increased revenues that result from wasting less coal could more than cover the loan payments.

If development banks are unwilling to finance new plants, utilities could turn to the market for help. Their additional revenue streams could be packaged into tradable "green" securities and sold to private investors, functioning like bonds. Investors would loan capital up-front to pay for more efficient plants that generate higher profit margins. In return, when long-term power sales agreements for the plant are structured, investors would receive a portion of that extra profit. In order

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to maximize the environmental gains, any loan program should not finance anything less efficient than ultra-supercritical plants.

Critics may argue that financing any kind of coal is bad environmental policy. The calculus, however, is more complicated, and it depends on counterfactuals. In places where financing coal power would crowd out cleaner sources of energy, development banks should refrain from doing so. But much of the developing world, constrained by tight budgets and limited alternatives for large-scale power generation, faces a choice not between coal and renewable energy but between inefficient coal plants and efficient ones. In those places, it makes sense to finance more efficient coal plants because they would reduce emissions substantially. In other cases, the reality will lie somewhere in between, and development banks should finance packages of renewable sources alongside cleaner coal. That is precisely the arrangement the World Bank reached in South Africa in 2010, when the country was experiencing crippling electricity shortages.

A push for efficiency can bring the economic and environmental interests of the developing world into alignment. Although China is already aggressively replacing its outdated plants with world-class ones, many other countries have been unable to overcome the scientific and financial hurdles to boosting efficiency. That lack of progress represents a massive opportunity to prevent billions of tons of carbon dioxide from polluting the atmosphere.

COAL WITHOUT CARBON

Eventually, as the world's coal plants reach the limits of efficiency and the economics of renewable energy grow more favorable, advanced coal plants will yield diminishing returns. But because coal is so cheap and plentiful, it will remain a major part of the world energy mix for some time to come. In the long run, then, the goal should be to develop the capability to produce electricity from coal without releasing any emissions at all. Technologies that offer that possibility are beginning to emerge. Yet in order to become commercially viable, they will need financial and regulatory support from governments.

One of the leading clean-coal technologies is carbon capture and sequestration (ccs), whereby carbon dioxide is siphoned off from a power plant's emissions and pumped underground. Right now, the process is prohibitively expensive, costing roughly $50 to $100 for every ton of carbon dioxide stored. But since carbon dioxide from coal plants is one of the largest sources of emissions, it is worth trying to bring these costs down. To do so, governments that already sponsor CCS research, including those of Australia, China, the European Union, and the United States, need to ramp up funding. (So far, the sum of global public support for CCS demonstration projects has reached only $23 billion.) Countries should coordinate their efforts more closely so as to accelerate innovation in CCS, planning demonstration efforts in places, such as China, that offer lower costs and fewer regulatory hurdles. Additionally, governments should fast-track regulatory approval for projects that use captured carbon dioxide to revive old oil reservoirs, a practice that would make the economics of CCS more attractive.

Emerging technologies could eventually allow electricity to be produced from coal without releasing any emissions at all.

A more revolutionary clean-coal technology allows energy companies to capture coal's energy without ever bringing the coal itself aboveground. Underground coal gasification (UCG) involves igniting coal seams deep below the earth's surface, which transforms them into a gas that can then be piped aboveground to fuel electrical generators or create diesel substitutes. The technology is experiencing a wave of new investment thanks to new advances in drilling and computer modeling that are bringing down costs. UCG leaves most of the pollution associated with burning coal belowground, especially when the process is combined with CCS.

UCG technology is not yet widely commercially viable, but pilot projects across the globe are allowing engineers to perfect their drilling and combustion techniques so that the costs can eventually come down. The Lawrence Livermore National Laboratory estimates that the gas created by UCG could be environmentally equivalent to natural gas and cost around $6 to $8 per million BTUs. That range far exceeds current U.S. natural gas prices, which hover between $2 and $3, but it is roughly half of what China and India pay for natural gas on world markets. The gas from UCG would also be cheaper than oil per unit of energy and could be turned into transportation fuel to compete directly with it.

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Governments should bankroll more research into this promising technology, which could yield huge environmental and energy security benefits. Companies in Australia and China are already pursuing advanced UCG projects. According to scientists at the Lawrence Livermore National Laboratory, if the U.S. government spent $122 million on a domestic UCG research program, the country would have a shot at developing commercially viable technology.

In a time of fiscal austerity, these worthy emissions-reducing innovations are unlikely to get much government funding, at least not enough for them to become commercially viable. So innovators will have to attract some of the $1 trillion managed by private equity groups and venture capital firms. Smart tax policies can make that task easier. In the United States, Congress should create a new tax category for private equity and venture capital funds that invest in energy innovation. Then it should offer investors, such as pensions and endowments, tax credits for funneling capital into these funds. The result would be the creation of an entire asset class that would allow markets to seek out the energy innovations that will deliver both the greatest environmental benefits and the greatest profits.

A CLEANER, COOLER FUTURE

The growth of demand for coal in the developing world is simply a replay of the developed world's own industrial past. Once-poor societies are now clamoring for the same opportunities and luxuries their richer counterparts have enjoyed for decades, and they are turning to coal, dirty as it may be, to fuel that expansion. As one Chinese energy official put it during an energy conference at Stanford University in 2011, the average man in Guangzhou "would rather choke than starve."

Cleaner alternative energy sources are beginning to sate the developing world's appetite for coal, but it will be decades before they can meaningfully displace coal's dominant share of the global electricity mix. Any energy and climate strategy for the future must accept that fact. Indulging in quixotic visions of a coal-free world is an incoherent and inadequate response to the problem of global warming.

No matter what one thinks about coal, this much is clear: cleaning it up has to be a central part of any climate strategy. If the governments, multilateral institutions, and financial markets of the industrialized world helped the developing world upgrade its existing coal plants and ensured that only the cleanest coal plants were built, the effect on the climate would be profound. All told, smarter policies could lower the volume of carbon dioxide emissions per megawatt of coal-fired electricity by more than 40 percent before 2050. And if CCS or UCG can be made commercially viable, that volume could be reduced even further.

Ultimately, these transformations will cost money, and most of it will have to be spent in the developing world, where emissions are rising the fastest. The best way to pay for that would be to assign a market-based price to carbon—through a cap-and-trade program, tax policies, or other alternatives—and then allow the market to finance the cheapest sources of carbon dioxide reductions. But as the aftermath of the Kyoto Protocol negotiations has demonstrated, getting countries to agree on that idea is immensely difficult. The good thing about a strategy to make coal cleaner is that it doesn't require a price on carbon or a global climate deal.

The lack of a price on carbon will make it harder to finance some clean-coal technologies, and it will affect which strategies hold the most near-term promise. In particular, the profitability of CCS technology depends on governments assigning a price to carbon dioxide; otherwise, there is little incentive to capture a gas with almost no value. But other strategies to deal with coal use in the developing world—namely, highly efficient coal plants and UCG technologies—can still be successful because they are aligned with developing countries' own incentives to deliver cheap and secure energy. Slashing emissions from coal doesn't require a price on carbon, and there is no reason to wait for one.

As demand for coal climbs to new heights and as global temperatures keep rising, the world cannot afford to pass up the opportunity to make the fuel cleaner. This strategy represents a pragmatic way to cut carbon dioxide emissions by billions of tons each year. Humanity has come a long way since the Industrial Revolution, when sooty skies signaled economic progress. As the developing world industrializes, it is time to reenvision coal, not just as the leading cause of climate change but also as a leading opportunity to fight it.

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Reviews & Responses

REUTERS

World leaders gathering at the G-20 summit in Cannes, France, November 3, 2011

Multilateral institutions make cooperation easier, which is why policymakers have invested so much effort in creating and maintaining them.

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Review Essay

Hegemony and After

Knowns and Unknowns in the Debate Over Decline

Robert O. Keohane

The World America Made. BY ROBERT KAGAN. Knopf, 2012, 160 pp. $21.00.

Power and Willpower in the American Future: Why the United States Is Not Destined to Decline. BY ROBERT J. LIEBER. Cambridge University Press, 2012, 192 pp. $90.00 (paper, $24.99).

Playing a dominant role in world politics does not make for an easy life. Even very powerful states encounter problems they cannot solve and situations they would prefer to avoid. But as Macbeth remarks after seeing the witches, "Present fears are less than horrible imaginings." What really scares American foreign policy commentators is not any immediate frustration or danger but the prospect of longer-term decline.

Recently, the United States has been going through yet another bout of declinism—the fifth wave in the last six decades, by the scholar Josef Joffe's count. This one has been caused by the juxtaposition of China's rising power and American economic, political, and military malaise. Just as in the past, however, the surge of pessimism has produced a countersurge of defensive optimism, with arguments put forward about the continued value and feasibility of U.S. global leadership.

Two examples of such antideclinist forays are Robert Kagan's *The World America Made* and Robert Lieber's *Power and Willpower in the American Future*. Both make some cogent points in their analyses of the past, present, and future of the existing U.S.-sponsored global order. But their authors' refusal to accord due weight to multilateral institutions and material power in their assessments of that order, and their overconfidence in making assertions about the future, reduce the books' value as appraisals of contemporary world politics.

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IT TAKES AN INSTITUTION

Kagan's gracefully written essay notes that the United States has played an essential role in creating the international system of the last 60 years, one in which large-scale warfare has been relatively rare, the global economy has grown at unprecedented rates, and the number of democracies has quadrupled. Harking back to Frank Capra's *It's a Wonderful Life*, Kagan asks readers to imagine what the world would have been like during this period without American leadership and says the answer is clear: much less attractive. U.S. hegemony helped promote peace, prosperity, and political liberalization, and American power continues to be important in maintaining world order.

The World America Made offers a thoroughly conventional reading of world politics, one focusing on the sources and distribution of power in the international system and the ways in which states interpret their interests. The lack of a common government to enforce rules means that order depends on bargaining, which typically involves threats as well as promises. Threats imply some chance of conflict. And so international systems not dominated by a single great power have only rarely managed to sustain peace for long.

General readers might not realize how conventional this interpretation of world politics is, since Kagan strikes a pose of embattled iconoclasm, ignoring most of the major authors who developed the case—such as E. H. Carr, Hans Morgenthau, and Kenneth Waltz—and claiming to refute other scholars with whom he supposedly disagrees, such as G. John Ikenberry and Joseph Nye.

Unfortunately, Kagan's method of disagreement is unconvincing. When he raises an opposing claim, he almost never provides data or even systematic evidence; instead, he relies on a counter-assertion with a few carefully selected examples. More annoying, he typically overstates the argument in question, stripping it of its original nuance, before claiming to refute it.

One of his favorite rhetorical tactics is to assert that his opponents think some trend is "inevitable" or "irreversible"—the dominance of the American-led liberal order, the rise of democracy, the end of major war. Another is to suggest that his targets believe in "multipolar harmony." But two of the most basic propositions of contemporary international relations, certainly accepted by all the writers he dismisses, are that world politics is a realm of inherent uncertainty and that it is characterized by a natural absence of harmony. Since practically everybody knows that nothing in world politics is inevitable and harmony is virtually nonexistent, attributing the opposite beliefs to one's opponents assures one of victory in a mock combat.

It is precisely because international discord is the norm, in fact, that theorists and practitioners spend so much time and effort trying to figure out how to generate and sustain cooperation. Many well-informed commentators view the multilateral institutions that have emerged from all this work as providing important supports for the contemporary world order. They point to the roles of UN peacekeeping operations in fostering security, the World Bank in promoting development, the International Monetary Fund (IMF) in enhancing financial stability, the World Trade Organization in fostering commerce, and NATO and the European Union in helping achieve unprecedented peace and unity across an entire continent.

Kagan scoffs, arguing that other states accept U.S. dominance not because it has been embedded in such frameworks but because they approve of American values and goals and believe they may need American power down the road. He disparages the United Nations; ignores UN peacekeeping, the World Bank, and the IMF; and is dismissive of the European Union. But his rejection of the value of institutions is based largely on one sentence, worth quoting in full as an example of his style of argumentation: "All efforts to hand off the maintenance of order and security to an international body with greater authority than the nations within it, or to rely on nations to abide by international rules, regardless of their power to flout them, have failed." Yet Kagan does not mention the fact that the UN Security Council has always operated with the possibility of vetoes by any of the five permanent members—showing that there was never any effort to endow it with authority above those states—nor does he note the extensive literature that explores how states use the UN and other multilateral institutions to pursue their interests, rather than "hand[ing] off" power to them. This is less serious debate than the tossing of cherry bombs at straw men.

The World America Made thus combines a conventional and often sensible analysis of world politics and modern U.S. foreign policy with tendentious criticism of supposedly competing arguments that few, if any, authors actually make. Kagan does not engage in serious analysis of how much military power the United States needs to maintain its central leadership role, in alliance with other democracies, in a stable world order, or of how what Nye has called "soft power" can contribute, in conjunction with "hard" material power, to U.S. influence.

Lieber's book largely agrees with Kagan's, arguing that "the maintenance of [the United States'] leading [international] role matters greatly. The alternative would . . . be a more disorderly and dangerous world." *Power and Willpower in the American Future* documents the many erroneous statements about American decline by commentators such as the historian Paul Kennedy (who argued in 1987 that the United States suffered from "imperial overstretch") and even Henry Kissinger (who wrote in 1961 that "the United States cannot afford another decline like that which has characterized the past decade and a half"). Lieber provides useful data on the relative economic production of major countries and gives both his predecessors and his intellectual opponents due credit for their contributions.

In the end, however, the flaws in Lieber's arguments are similar to those in Kagan's. He, too, dismisses multilateralism as generally ineffective, emphasizing its failures while paying less attention to its successes, whether in peacekeeping, trade, or nonproliferation. He slights NATO's operations in Kosovo in 1999 and Libya in 2011, for example, arguing that the former exhibited "military and tactical limitations" and pointing out that "stronger and more decisive initial attacks" might have brought quicker success in the latter. Even if valid, surely these critiques are relatively minor compared to the results achieved, with high international legitimacy, in both cases. But Lieber has difficulty admitting that such episodes should be counted as evidence for multilateralism rather than against it.

In a previous book, Lieber offered a robust defense of and rationale for the foreign policy approach of the George W. Bush administration, including making a case for preventive war. One might have hoped that in this successor volume he would have revisited such issues and subjected the practical track record of unbridled unilateralism to the same sort of withering scrutiny he gives to multilateralism, but such self-reflection is not to be found here. (Nor is it present in Kagan's book, for that matter, where it would have been equally welcome.)

KNOWN AND UNKNOWN

Apart from questions of originality and the specifics of the declinist debate, the central problem with books of present-oriented foreign policy commentary such as these lies in their failure to distinguish between what is known and what is unknowable. By conflating the two, they end up misleading readers rather than educating them. It might be useful, therefore, to indicate half a dozen things relevant to the future of the U.S. global role that can now be said with confidence.

First, we know that in the absence of leadership, world politics suffers from collective action problems, as each state tries to shift the burdens of adjustment to change onto others. Without alliances or other institutions helping provide reassurance, uncertainty generates security dilemmas, with states eyeing one another suspiciously. So leadership is indeed essential in order to promote cooperation, which is in turn necessary to solve global problems ranging from war to climate change.

Second, we know that leadership is exercised most effectively by creating multilateral institutions that enable states to share responsibilities and burdens. Such institutions may not always succeed in their objectives or eliminate disagreements among their members, but they make cooperation easier and reduce the leader's burdens—which is why policymakers in Washington and many other capitals have invested so much effort for so many decades in creating and maintaining them.

Third, we know that leadership is costly and states other than the leader have incentives to shirk their responsibilities. This means that the burdens borne by the leader are likely to increase over time and that without efforts to encourage sharing of the load, leadership may not be sustainable.

Fourth, we know that in a democracy such as the United States, most people pay relatively little attention to details of policy in general and foreign policy in particular. Pressures for benefits for voters at home—in the form of welfare benefits and tax cuts—compete with demands for military spending and especially nonmilitary foreign affairs spending. This means that in the absence of immediate threats, the public's willingness to invest in international leadership will tend to decline. (A corollary of this point is that advocates of international involvement have incentives to exaggerate threats in order to secure attention and resources.)

Fifth, we know that autocracies are fundamentally less stable than democracies. Lacking the rule of law and accepted procedures for leadership transitions, the former are subject to repeated internal political crises, even though these might play out beneath a unified and stable façade. China's leadership crisis during the spring of 2012, marked by the detention of the politician Bo Xilai and his wife, illustrated this point.

And sixth, we know that among democracies in the world today, only the United States has the material capacity and political unity to exercise consistent global leadership. It has shown a repeated ability to rebound from economic and political difficulties. The size, youth, and diversity of its population; the stability and openness of its political institutions; and the incentives that its economic system creates for innovation mean that it remains the most creative society in the world. Yet it also has major problems—along with intense domestic partisan conflict that prevents those problems from being resolved and that constitutes a major threat to its continued leadership abroad.

What we don't know, however, is at least as important. Will the major powers in the international system, most importantly China, maintain their social and political coherence and avoid civil war? Will the instabilities in the global economy exposed by the 2008 financial crisis be corrected or merely papered over and thus left to cause potential havoc down the road? Will ideologically driven regimes, such as the one in Iran, be prudent or reckless in their quest to develop or even use nuclear weapons, and will potentially threatened states, such as Israel, act prudently in response? Will the trend in recent decades toward greater global democratization be maintained, or will it give way to an antidemocratic reaction? And perhaps most important for the issues discussed here, can the United States as a society summon the political coherence and willpower to devise and implement a sustainable leadership strategy for the twenty-first century?

When it comes to netting out all these factors, declinists are pessimists and antideclinists are optimists. Both camps, however, tend to blend knowledge and speculation and to ground their conclusions more in mood and temperament than in systematic evidence or compelling logic, making it difficult to take their confident claims seriously. Scientists are careful to note the degree of uncertainty associated with their inferences; pundits should seek to follow their example. Given the mix of the known and the unknown, the safest conclusion for readers interested in the next era of world politics is probably the physicist Niels Bohr's injunction not to make predictions, especially about the future.

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Review Essay

Fixing Finance

Wall Street and the Problem of Inequality

Gillian Tett

Inequality and Instability: A Study of the World Economy Just Before the Great Crisis. BY JAMES K. GALBRAITH. Oxford University Press, 2012, 336 pp. $29.95.
Finance and the Good Society. BY ROBERT J. SHILLER. Princeton University Press, 2012, 288 pp. $24.95.
Predator Nation: Corporate Criminals, Political Corruption, and the Hijacking of America. BY CHARLES FERGUSON. Crown, 2012, 384 pp. $27.00.

A few years ago, while looking at the *Journal of Economic Literature*, the weighty compendium that tracks economic research, the economist James Galbraith spotted a curious omission. Although the journal monitors work on income inequality and on financial stability, he explains in his new book, before the recent financial crisis, "there was (and is) no category for work relating inequality to the financial system."

Part of the problem is academic tribalism: the type of economists who study inequality tend to be interested in micro-level issues of poverty rather than macroeconomic issues, such as the global supply of credit. But the gap also reflects an intellectual illusion that prevailed during the decade before 2007. Back then, most Western economists believed that the world had entered an era in which the business cycle had flattened out and financial instability no longer mattered—"the great moderation," it was called. In particular, many hoped that markets were self-healing; bouts of financial excess were unlikely to last because they would quickly self-correct. Before 2007, Galbraith writes in *Inequality and Instability*, "there was practically no study of credit and therefore no study of financial instability at all. In a discipline that many might suppose would concern itself with the problems of managing an advanced financial economy, the leading line of argument was that no such problems could exist."

How times change. These days, the gurus who compile the *Journal of Economic*

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Literature need only turn on the television or open a newspaper to see why inequality and financial stability matter deeply, not just as separate issues for their own sake but also in connection with each other. Never mind all the handwringing about the failures of financial policy before 2007 or the scramble by regulators to devise new rules to make the financial system safe again. These days, there are equally furious rows about inequality: in Congress between Democrats and Republicans over the "millionaires' tax" and, of course, in the Occupy Wall Street movement, whose adherents complain about both the excesses of finance and the privileges enjoyed by the top one percent.

Galbraith's timely and provocative book adds some economic and statistical ballast to the vague rhetorical slogans of the Occupy protesters. Drawing on meticulous academic research, it argues that the main source of the growing inequality across the world in recent years has been not industrial change, educational reform, or geopolitical shift but the financialization of the modern world. In other words, the American middle class cannot blame its woes on China alone; Wall Street is responsible, too. The sector has come to dominate, not serve, the economy, thus "financializing" society at large with its loans, derivatives, and other financial instruments. According to Galbraith's analysis of global historical trends, "the difference between the financial sector and other sources of income is—wherever we can isolate it—a large (and even the prime) source of changing inequalities."

As Galbraith explains, the dramatic growth of the financial sector in recent decades, amid a supply of excess credit from central banks and other sources, has allowed a tiny elite to become far wealthier than everyone else, particularly in the United States. In part, the rich have gotten richer because excess credit pumps up the value of tradable securities, thus raising the paper value of their wealth. But the growing clout of finance has also strengthened their position by enabling banks to skim off more profits from the economy—"rents," in economic jargon.

Moreover, he adds, it is a mistake to think that these changing patterns have affected the population as a whole; growing inequality in the United States during the 1980s and 1990s was a reflection of "the concentration of income and wealth among the richest of the rich, and the corresponding financial fragility affecting everyone else." Instead of watching the top one percent, in other words, Occupy protesters and economists should be looking at the behavior of the top 0.01 percent, since it is the hyper-rich who have been skewing the data across the world.

Galbraith does not always present this provocative argument in a particularly user-friendly way. On the contrary, *Inequality and Instability* will probably be somewhat intimidating for the layperson. Galbraith has developed his thesis after years of academic research into inequality statistics, conducted with fellow researchers at the University of Texas at Austin, and as a result, the text is replete with equations and charts. The first few chapters of the book, for example, are devoted to a fascinating but technical discussion of the quality of the existing data on inequality. (Galbraith considers traditional measures flawed because they rely on out-of-date conceptions of the modern economy, focusing too

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REUTERS / ADREES LATIF

On strike: Occupy Wall Street activists, New York, May 1, 2012

heavily, for example, on trends in manufacturing salaries.)

This academic grounding lends his thesis credibility. But at times, it makes for a dry argument, even when Galbraith is handling potentially incendiary issues, such as the link between voting patterns and inequality in various regions in the United States or the degree to which the George W. Bush administration deliberately created a housing bubble as part of its "ownership agenda." Another frustration is Galbraith's refusal to offer policy solutions to the problems he outlines. Instead, he ruefully concludes that "the ability or willingness of political systems to affect the movement of inequality is very limited in the world today." The ability of some countries to have a more equal income distribution and lower unemployment reflects differences in "economic institutions rather than the political structure per se." Policymakers and protesters searching for ideas about how to cure, not measure, inequality and financial instability will find no neat answers here.

BLAME GAME

But for that they can turn to two more readable, but less pioneering, books: Robert Shiller's *Finance and the Good Society* and Charles Ferguson's *Predator Nation*. As their titles indicate, these two works approach the issue of inequality and instability from different ideological viewpoints. Shiller, an economist at Yale University, is instinctively well disposed toward finance; although he acknowledges the excesses of the pre-crisis years, he is convinced that financial innovation can be valuable, if only it can be married with a better set of ethics and a more "democratic spirit." Thus, rather than demonizing bankers, society should celebrate them as potentially valuable craftsmen who should be encouraged to tap into their better natures. Ferguson, by contrast, seems to be outraged by most modern bankers; in his eyes, the twenty-first-century financial elite has raped the United States' political and economic system and the rapists need to be punished. Indeed, he argues that the sins of finance not only created the last boom-to-bust cycle but also are fueling the broader decline of the United States.

Leaving aside the difference in tone, both books share Galbraith's interest in financial instability and wealth, and that leaves them grappling with the question that Galbraith ducks: Should governments rein in finance to crush the elite, or should they simply accept income differentials and financial swings as the inevitable price of dynamic societies?

Shiller leans toward the second camp. In presenting his defense of finance, he first describes how the modern financial system works, detailing the species of professionals in this ecosystem (in which bankers are only one small subcategory). The more interesting part of his book is a loosely linked set of essays on the nature of finance, covering topics such as philanthropy, speculative bubbles, and the dispersal of the ownership of capital.

In some respects, *Finance and the Good Society* is a slightly odd pastiche, having arisen from a lecture series that Shiller devised for his students. But the common thread running throughout is Shiller's belief that finance is about far more than numbers; it involves people, too. Shiller helped make behavioral economics popular in the last decade, and his discussion of finance draws not only on insights from economics but also on those from psychology, sociology, and even anthropology.

That approach gives his work a relativistic tinge, as he tries to explore the incentives that drive humans. Thus, he argues that although some financial players may have engaged in egregious behavior before the crisis, it is a mistake to view them all as greedy, immoral, or dumb. "We tend to think of the philosopher, artist, or poet as the polar opposite of the CEO, banker, or businessperson," he writes. "But it is not really so." Both groups of professions attract intelligent and well-meaning people.

Instead of lambasting bankers, then, politicians should be trying to build incentives that reward sensible, morally upright behavior. And rather than banning innovation or trying to even out compensation, Shiller argues, society should embrace financial creativity and wealth. Finance can be extremely beneficial for everyone when it helps push capital around the economy and enables consumers and companies to manage risk. "Yet our wonderful financial infrastructure has not yet brought us the harmonious society that we might envision," he admits.

Shiller therefore concludes that finance needs to become more "democratic," with more people participating more freely in markets and taking advantage of financial instruments; indeed, in recent years, he himself has tried to develop housing-linked derivatives and securities so that ordinary households can insure themselves against risk. At the same time, he adds, those in the industry need to drop the "great illusion" that it is just about money and salaries. "We need a system that allows people to make complex and incentivizing deals to further their goals," he writes, "and one that allows an outlet for our aggressions and lust for power."

Ferguson is far more pessimistic. In his eyes, when bankers start talking about philanthropy, innovation, and free-market competition, this is simply a cloak concealing the fact that modern banking is a rapacious beast—a system that, having distorted the global economy in the credit boom, then sparked a terrible bust. Ferguson is particularly angry that bankers have emerged from this debacle without suffering any serious financial penalties (that "the bad guys got away with it") and that they are continuing to peddle their dangerous financial wares. "As of early 2012 there has *still* not been a single criminal prosecution of a senior financial executive related to the financial crisis," he writes. "Nor has there been any serious attempt by the federal government to use civil suits, asset seizures, or restraining orders to extract fines or restitution from the people responsible for plunging the world economy into recession."

Such statements will not surprise anyone who watched Ferguson's clever and droll Oscar-winning documentary *Inside Job* (for which I was interviewed). Indeed, parts of *Predator Nation* are essentially a written version of that film, although the print version contains less well-timed wit. Ferguson contends that the "uncontrolled hyperfinancialization" of the U.S. economy fed growing income inequality and empowered the financial elite, which then used its influence to control Congress and achieve the cognitive capture, as it were, of the academic world.

He goes further still, naming and shaming those he holds responsible for the crisis. It is a long list, which includes the former Countrywide Financial CEO Angelo Mozilo, who oversaw an organization that pumped out subprime mortgages

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to borrowers who could never hope to repay them; the former Merrill Lynch CEO Stan O'Neal, whose banks repackaged those risky mortgages into rotten securities, without properly recognizing the risk; the former Citigroup CEO Chuck Prince, who failed to understand how his vast bank was exposed to risk; and many other Wall Street and Washington names. Ferguson even calls for certain bankers to be prosecuted. For example, he charges Lloyd Blankfein, the CEO of Goldman Sachs, with perjury, pointing out that Blankfein testified before Congress that he was unaware of the importance credit ratings played in institutional investors' purchasing decisions—even though he had spent his entire career at Goldman Sachs. "The idea that he was unaware of the importance that ratings played in institutional purchases of [collateralized debt obligations] is, to put it bluntly, beyond absurd," Ferguson writes. "When Mr. Blankfein so testified, he was, in my opinion, perjuring himself. . . . I'm willing to bet that if you go through his e-mail carefully and depose everyone around him, there would be plenty of evidence that he knew perfectly well how important ratings are."

Ferguson is equally brutal toward academics, even former friends of his, such as the Berkeley economist Laura Tyson; he argues that before the crisis, she did not ring the alarm about the impending financial woes, even though she was (and is) sitting on Morgan Stanley's board of directors. Some of the most powerful scenes in *Inside Job* are the interviews Ferguson conducted with academics such as Glenn Hubbard and Martin Feldstein, in which he confronts them with the (largely unreported) payments they received from financial firms. In *Predator Nation*, Ferguson provides more details about what he considers conflicts of interest for such economists as Larry Summers (who has worked for the hedge fund D. E. Shaw), Frederic Mishkin (who was paid to write a report on Iceland), Richard Portes (who also received money for writing about Iceland), and Hal Scott (who is on the board of the investment bank Lazard). "The gradual subversion of academic independence by finance and other large industries is just one of many symptoms of a wider change in the United States," he argues, noting that pharmaceutical money has also corrupted universities. "It is a change that is more general, and even more disturbing, than the financial sector's rising power."

Such allegations will certainly not win Ferguson many friends in American universities; indeed, the angry tone would probably make Galbraith and Shiller wince. But love it or hate it, Ferguson's anger taps into a popular vein. And if there is one thread that links all three books together, it is what Shiller calls the problem of "caste." All three authors recognize that as the financial industry has swelled, it has created an elite that not only wields wealth and power but also passes that privilege onto the next generation, thanks to educational stratification and social exclusion.

To Ferguson, the behavior of this caste looks quasi-criminal, whereas Galbraith prefers to describe it in terms of dry global economic trends. Shiller, meanwhile, sees this caste system as tarnishing higher-minded ideals: he admits that the business community is often too clubby, but he contends that there is nothing inherent about finance that makes that so. "It is not the financial tools themselves that create the caste structure," he writes. "The same financial tools can also, if suitably designed and democratized, become a means to break free from the grip of any caste equilibrium."

REASON TO REFORM

Either way, what one can be sure of is that debate over the rise of this financial elite will not die away soon, least of all in an election year. Not everyone will agree with Ferguson's conclusion that the United States has become a country that "allows predatory, value-destroying behavior to become systematically more profitable than honest, productive work"; even fewer will accept his claim that "the worst people rise to the top . . . behave appallingly, and . . . wreak havoc." But although his language might sometimes seem extreme, the fundamental arguments are correct and should be heeded—and Ferguson is right to argue that the key policy question today is how governments will respond.

Pushing for more accountability in finance would be one good place to start. As Ferguson notes, the fact that so few people have suffered penalties for the financial crisis of 2008 has robbed the United States of any sense of political closure. Whether prosecutors could make more criminal cases stick is unclear. But looking forward, it is essential that regulators are given more resources to clamp down on future financial misdemeanors. Although Shiller correctly argues that finance needs to become more "moral," preaching ethics will never change behavior as much as the threat of prison.

More important still, U.S. policymakers need to recognize that if they are going to pay homage to free markets in their political rhetoric, they must ensure that markets are truly free in the sense of being open and competitive. That means making finance dramatically more transparent and simple and ensuring that financial institutions are small and self-contained enough to fail without bringing the entire system down. Without such market discipline, it is impossible to have a proper market at all. But above all else, policymakers must prevent powerful cliques of bankers and banks from dominating the system for their own ends, skimming off outsized margins because nobody else can work out what they are doing or because the barriers to entry are too high for anybody else to compete. And last but not least, governments should make sure the banks pay for the risks they pose to the system, or recognize the costs they could potentially pose, by imposing taxes or fees.

Such reforms would no doubt make bankers squeal; after all, a more transparent and competitive financial system would probably be a less profitable one. But a world where finance was far more modest would also be more inclusive and equitable. And that outcome would be good for bankers and nonbankers alike.

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Review Essay

Reading Putin

The Mind and the State of Russia's President

Joshua Yaffa

The Strongman: Vladimir Putin and the Struggle for Russia BY ANGUS ROXBURGH. I.B. Tauris, 2012, 288 pp. $28.00.

The Man Without a Face: The Unlikely Rise of Vladimir Putin. BY MASHA GESSEN. Riverhead Books, 2012, 304 pp. $27.95.

On the morning of May 7, Vladimir Putin glided through the empty streets of Moscow in a dark limousine, his motorcade making its way toward the Kremlin for his inauguration as Russia's president. There were no supporters lining the streets, no hecklers, or even curious passersby, for that matter; the police, fearful of protests, had virtually quarantined the city. The picture was of a man isolated in the soothing, if illusory, cradle of supreme power. As Putin took the oath to become president, an office he first occupied more than 12 years ago, he said, with a somber face, that serving Russia was "the meaning of my whole life."

During the Putin era, Russia has changed considerably. The country has doubled its GDP, paid off its foreign loans almost four years early, built up a one-party façade of democracy, deployed its energy resources as a means of coercive diplomacy, reasserted its regional influence, and fought a war against Georgia.

Yet Russia's antigovernment protests, which broke out last December, have challenged Putin like never before. For the first time, he could not claim that those who opposed him were a marginal, ineffectual force. And although he may have prevailed in the presidential election last March, the underlying factors behind the mass opposition to his rule—namely, a rising middle class that increasingly demands political representation and respect—will only grow.

With Putin again in command, understanding him is more important

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than ever, both for those inside Russia who seek to challenge his rule and for those abroad who must navigate relations with Moscow in his new term. What ultimately lies behind Putin's drive to consolidate power? Is it the need for control for its own sake, the assemblage of wealth and influence, the pursuit of wresting Russia back to greatness, or something else entirely?

Little is known about Putin's past and his fundamental nature, making the immediate answers to these questions hard to come by. Despite being one of the most theatrically visible world leaders—shooting a tiger with a tranquilizer, say, or riding shirtless on a horse through the mountains—Putin is in fact a mysterious figure. Two recent books on the Russian president, Angus Roxburgh's *The Strongman* and Masha Gessen's *The Man Without a Face*, attempt to fill this gap, drawing portraits of what is, ultimately, an unknowable subject. Both books marshal new and valuable details about Putin's life and rule. But in the end, any attempt to understand Putin by unraveling his personal story, rather than focusing on the state he built, is a bit like telling time by looking at the needle of a sundial instead of its plate: the necessary information is contained not in the object itself but in the shadow left behind.

RUSSIA ON THE RISE

By the end of his time in office, former Russian President Boris Yeltsin was in a state of political decay—or, as Gessen writes, "a boxer gone blind, flailing in the ring, striking imaginary targets and missing real ones." Nearly ten years after the collapse of the Soviet Union, Russia, like Yeltsin, was weak and humiliated. Roxburgh, for his part, rightly criticizes the overbearing and ultimately counterproductive tone that Washington and its allies took toward Moscow throughout the 1990s, which reinforced Russian insecurity and would later help to justify the reactionary and standoffish strain in Russia's Putin-era foreign policy. "The West's handling of post-Soviet Russia," Roxburgh writes, "has been just about as insensitive as it could have been."

Putin was meant to rescue the country from that painful era. To the members of Yeltsin's inner circle, he seemed an honest, dependable figure and, most important, one without a threatening agenda or a power base of his own. This made him, as Gessen puts it, an "ideal" candidate to replace Yeltsin: "Putin, being apparently devoid of personality and personal interest, would be both malleable and disciplined." Everyone saw in him what he or she wanted: the loyal statist, the clean-cut, modernizing reformer, the sober and disciplined KGB man.

Yet those who anointed Putin scarcely knew him. And more than a decade of his rule has revealed little more. Gessen bases many of the details in her book on Putin's 2000 autobiography, *First Person* (written with the help of a team of journalists), an imperfect approach that yields some insights but has obvious limits. That portrait shows Putin as a man with a proud, almost protective fondness for his childhood reputation as a "postwar Leningrad thug" and a peculiar and covetous relationship with material possessions. (Gessen diagnoses him with pleonexia, the "desire to have what rightfully belongs to others," an intriguing but ultimately speculative claim.)

REUTERS / SERGEI KARPUKHIN

Head of state: rallying for Vladimir Putin, Moscow, May 6, 2012

Above all, Putin comes off as a man who, at every stage of his life and career, has had a respect for institutions, not ideology, and an obsession with the idea of one day controlling the real levers of power over those institutions. As he told his biographers for *First Person*, "I was most amazed by how a small force, a single person, really, can accomplish something an entire army cannot. . . . A single intelligence officer could rule over the fates of thousands of people."

As Putin gradually assembled that power during his early years in office, he ruled as something of an authoritarian modernizer. Guided by the economic advisers Alexei Kudrin and German Gref, he pushed through a number of new laws on land ownership, deregulation, and tax reform, which together lent a measure of predictability to the country's economy and paved the way for the years of growth that followed. Between 1999 and 2008, Russia's GDP grew seven percent per year, a higher rate than during Stalin's rapid industrialization.

Such economic growth surely has as much to do with profits from rising oil and gas prices as it does with Putin himself. But it would soon become inexorably linked to his presidency. In the early years, the enthusiasm for the country's turnaround was contagious, and it still lingers today. As Mikhail Kasyanov, a former prime minister who was fired by Putin in 2004 and would later join the opposition, tells Roxburgh, "It seemed to me that Vladimir Putin and I were allies, building—maybe not without mistakes—a democratic state with a market economy."

Yet as his time as president wore on, Putin succumbed to the urges to consolidate control and purge potential rivals. Rising oil and gas prices soon flooded Russia with newfound wealth, providing him and his allies in the Kremlin with both confidence and an excuse to end reform. Thus followed the tightening of the screws: the arrest of Mikhail Khodorkovsky, the billionaire former head of the oil company Yukos; the cancellation of direct gubernatorial elections in the provinces; the raising of the threshold for political parties to make it into parliament; and so on. The resulting political order, to the extent that it could be rationalized, was dubbed "sovereign" or "managed" democracy by Vladislav Surkov, Putin's chief strategist (a figure conspicuously absent from Gessen's book). In sum, as Roxburgh puts it, Putin "believed that lack of central control lay at the heart of Russia's woes." And that is what he set out to fix.

BOSS PUTIN

To Putin and his fellow *siloviki*, former members of the security services who have risen to power during Putin's tenure, nothing happens by chance, and conspiracies are ever present. Thus, comically, Putin appears to genuinely believe that U.S. President George W. Bush personally ordered the firing of Dan Rather from CBS in 2006 and that the United States has purposefully exported low-quality chicken parts to Russia. More recently, and more seriously, Putin could not fathom that last winter's mass street protests were not an organized, ominous plot but the manifestation of middle-class anger against his rule.

In the most revealing section of *The Strongman*, Roxburgh heads to Russia as a consultant for Ketchum, the global public relations firm hired by the Kremlin in 2006 to manage its international image. Roxburgh portrays the high-level Russian officials with whom he dealt as a suspicious clique believing that everything and everyone can be manipulated, that a favorable op-ed in *The Wall Street Journal* surely must have a price, and that, as Roxburgh recalls, Ketchum should just "use [its] technologies to improve coverage." As he writes, "I had no idea what they meant."

Yet both Roxburgh and Gessen mistake Putin's obsession with absolute, efficient power for actual ownership of it. They each suggest that Putin has exercised almost omnipotent control over every moment of Russian political life during his reign. But this muddles how the state is actually organized. Putin's famed "vertical of power" is less a well-oiled totalitarian system than a kind of pact. In exchange for loyalty, often in the form of votes or other kinds of support for the federal government, officials down the bureaucratic chain, from regional governors to local police chiefs, can oversee their fiefdoms however they like, collecting rents while pocketing millions or allowing abuses to flourish. Chechnya, ruled by the current president, Ramzan Kadyrov, as a kind of microstate according to his own interpretations of sharia and Chechen tradition, offers the most extreme example of this arrangement. As Kadyrov told a Russian newspaper in 2009, "I am wholly Vladimir Putin's man. I shall never betray Putin; I shall never let him down. I swear by the Almighty: I would rather die 20 times."

In other words, Putin is the figurehead and clan boss of a system that could rightly be called Putinism—but that does not mean that he oversees everything that happens in that closed system or that the system always functions according to his directives. Yet Gessen, in her outrage—much of it justified, to be sure—blames nearly every calamity of the last decade on Putin. For example, regarding the 2007 murder in London of Alexander Litvinenko, a former agent of the FSB, Russia's main internal security service, she writes, "The authorization for such an intervention had to have come from the president's office. In other words, Vladimir Putin ordered Alexander Litvinenko dead."

But such a statement, offered without much evidence, overstates Putin's level of control. Putin does not issue every order himself, nor do his underlings always follow the orders that he does issue. One of the most glaring examples of this disobedience came in 2004, during the Beslan school siege, in which terrorists from the North Caucasus held more than 1,000 people hostage for several days. As Andrei Soldatov and Irina Borogan reported in their 2010 book on Russia's security services, *The New Nobility*, early on, Putin ordered high-ranking officials from the FSB and other agencies to immediately fly to Beslan and take charge of the standoff. The officials did fly to Beslan, but they waited on the tarmac for 30 minutes and then departed for Moscow, not wanting to take responsibility and leaving the ultimately disastrous operation to be overseen by others. When a group of parents whose children were killed at the school confronted Putin about the incident, his reply was simple. "It happens," he said, explaining that too many generals get in the way of one another.

Such confessions of powerlessness are rare, a potentially fatal admission of weakness to both potential rivals within the elite and perceived enemies in foreign capitals. Thus, Putin leaves officials at all levels of government near-total impunity to settle their own scores and promises to back them. Gleb Pavlovsky, a former close political adviser to Putin who left the Kremlin in acrimony after supporting the idea of a second term for Putin's protégé Dmitry Medvedev in the spring of 2011, told me that Putin sees himself as "the master of the farm—he can get angry at someone, but he is forced to defend him."

And so it is not that Putin did not order the death of Litvinenko. It is that he has created a system in which identifying the person who did so is impossible. All that matters is that whoever killed Litvinenko—and, for that matter, the journalist Anna Politkovskaya; the politician Galina Starovoitova, whose murder opens Gessen's book; and scores of others over the last decade—knows that the master of the farm will protect him.

RISKY BUSINESS

Russia's profound economic and social transformation during Putin's tenure has created, for the first time in the country's post-Soviet history, a true middle class, largely comprised of educated urban professionals in Moscow and Russia's other *millioniki*, cities of more than one million people. A consumer class has come of age; Russia's market for cars, for example, is now larger than Germany's. As this population has grown and become more materially secure, it has begun to worry about its civic voice and come to believe that it would be better off under a more equitable system. Economic success and frequent interaction with the West, whether through work, travel, or the Internet, have bred a new social culture, complete with its own expectations for responsive and transparent governance. Yet for much of Putin's rule, this did not lead to direct involvement in politics; instead, this class was in a state of quiet rebellion, living in a distant, self-created world far from the state and politics in general.

Then, last year, two events shook it from its slumber: first, Putin's announcement in September that he, not Medvedev, would seek to return as president and, second, last December's parliamentary elections, which were marked by widespread evidence of falsification meant to boost the results of the pro-Kremlin party, United Russia. The sense of grievance and the feeling that, as one popular slogan of recent months goes, "It's not all the same to us" manifested themselves in mass protests that drew as many as 100,000 people to the center of Moscow. This was not a revolutionary movement—after all, its upwardly mobile participants had too much to lose. But according to Lev Gudkov, a sociologist and head of the Levada Center, a respected independent polling agency, the demonstrations put forward a series of moral demands: about trust, honesty, and transparency in public life and politics.

As these street demonstrations continue to sputter along, the protest movement has started working in smaller, quieter ways: for example, young, independent candidates are winning seats on municipal councils in Moscow, and teams of volunteer election monitors are traveling to monitor voting in cities around the country. The apathy and individualism of the Soviet era are fitfully giving way to civic consciousness.

Yet for all that Russia has changed in recent months, Putin has largely remained the same. Now, as always, he relies on a mixture of masculinity, straight talk, and crass humor, while stoking two fears that have long found social resonance: of the chaos and weakness of the 1990s and of a Russia encircled by foreign enemies. His first reaction to the protests last December was to blame them on U.S. Secretary of State Hillary Clinton. Then, he compared the white ribbons of the demonstrators to condoms. "Putin is continuing to joke in the old way," Pavlovsky told me.

But those old jokes are becoming less and less effective. For starters, the country's sizable urban professional class, having reached a certain level of economic security, is concerned with democratic values and respect. Unlike, for example, in Mubarak-era Egypt, the demands for change are not rooted in economic despair. As such, Putin can no longer rely on his image as the irreplaceable guarantor of stability and growth. In fact, recent surveys show that the more wealthy an adult man in Moscow is, the more likely he is to support the idea of antigovernment protest. In other words, and in contrast to in other authoritarian states, in Russia material wealth does not cause a person to be co-opted by the system; it is starting to turn a person against it. Economic independence from the state, which those with relatively high-earning jobs have, breeds a desire for political independence.

This dynamic perhaps explains why by the end of the campaign season in February and March, Putin sought to stir up a kind of Russian class-based politics. As he saw it, he was the leader of rural and industrial Russia, defending the country from those unnamed forces that want, as he said in a campaign speech, "to interfere in our affairs, to force their will on us." In this speech and others, Putin has tried to link in the public consciousness the country's middle-class protestors to enemies abroad that would wish Russia ill. On the night of his victory, he told the employees of a tank factory, "You put in their places those people who went one step too far and insulted the working man." The real "Russian people," he went on to say, are "the worker and the engineer."

In the short term, Putin's strategy of pitting the working class against the middle class and the countryside against the cities has worked. But that may change. For years, in the smaller cities and provinces, dissatisfaction with the government and the broader status quo never translated into animosity toward Putin himself. But now, as Mikhail Dmitriev, president of the Center for Strategic Research in Moscow, argues, that cognitive dissonance is weakening. Many of the same trends in the cities are working their way through the provinces: rising standards of living are leading to rising expectations, and local grievances, whether about poor infrastructure or particularly corrupt officials, are gaining national resonance, with discontent being directed back toward Moscow. According to Dmitriev, attitudes in the regions are sharpening against Putin, making the provinces the "key to the resolution of Russia's political future."

Indeed, with the direct election of governors returning this fall, albeit with strong controls on who can run, the first murmurings of actual political change are likely to come not from Moscow but from one regional capital at a time. Opposition mayors have already come to power in Yaroslavl and Tolyatti, with more elections scheduled for this summer and fall. As the ruling party, United Russia, continues to lose popular support, and new political figures emerge in cities and regions, Putin may confront local politicians who are more popular than he is.

Such a predicament could soon mirror that faced by Mikhail Gorbachev toward the end of the Soviet Union, when he was surrounded by leaders of Soviet republics, Yeltsin among them, who, although technically subordinate, enjoyed greater popular legitimacy among the local population. Such a scenario would not lead to the fracturing of Russia, as it did to the Soviet Union. But it could change the entire incentive structure for local politicians, with those governors seeking to retain their popularity having to think as much about local demands as demands coming from the Kremlin. So far, candidates for regional office in the Putin era have been chosen for their demonstrated loyalty to Putin alone. But if real politics continue to develop in the regions, and politicians there become even minimally answerable to local voters, that calculus will change—with unforeseeable results for Putin's hold on power.

HOLLOWED OUT

The Putin system, although influenced by would-be modernizing autocrats from Russian history, such as Pyotr Stolypin, the tsarist prime minister, and Yuri

Andropov, the KGB chief and short-lived Soviet general secretary, is ultimately unique to Putin's time. It does not, as Gessen writes, represent "the transformation of Russia back into the U.S.S.R." Putinism has survived because, unlike the Soviet Union, it largely leaves its citizens alone. They are provided an array of freedoms as consumers and career-minded professionals; from cheap furniture at IKEA to vacations abroad, many of the trappings of middle-class European life are available, and for those with ambition and talent, Moscow can be a tremendous place to make a career. Choice is everywhere—except when it relates to politics. And by design, there are no refuseniks in Putin's Russia: anyone unhappy with this arrangement can leave at any time. In effect, Putinism is something much more crafty and postmodern than the lumbering, stifling control enforced by the Soviet state.

That said, Gessen, at the close of her book, wisely notes that Putinism, unlike communism, represents not a coherent worldview but rather a governing architecture built around preserving stability and, thus, power. Unlike in Soviet times, when official propaganda could attempt to rationalize certain privations, Putinism offers little for Russian citizens to believe in, no sense of mission to justify sacrifice or even discomfort. This will present two problems for Putin in the coming years. First, in the event of a new global economic crisis or a fall in oil prices, there will be little willingness to endure any loss of material well-being. And second, new political figures and movements would not, in Gessen's words, need to "overcome the force of an ingrained ideology" to present themselves as workable alternatives.

For now, economic growth is modest but steady, and the Russian budget will likely remain stable, staving off any dramatic domestic shocks. But Putin has provided no indication of what direction, if any, he plans to move the country in. In formulating their vision for Russia, Putin and those close to him may look admiringly at China, with its phenomenal economic growth and its unmoving, one-party control. But unlike in Russia, the governing order in China is more powerful, and more prized, than any one individual. Putin is thus in danger of creating something closer to a Central Asian autocracy, in which a self-described "national leader" doesn't so much defend the system as becomes it. Vladislav Inozemtsev, an economist and director of the Center for Post-Industrial Studies, told me that this puts Russia in the unique category of being a "financially stable, nondeveloping country."

That may keep Putin secure for a time, but it offers few hopeful long-term prospects. Having constructed the fundamental architecture of stability from the weak foundation of the 1990s, Putin appears unsure what to do with the building he has created, other than see it continue to stand. How long it will continue to do so depends on Putin's ability to adapt his vision of the state to a changed Russia. The throne may feel familiar, but the kingdom is brand-new.

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Review Essay

Confucius and the Ballot Box

Why "Asian Values" Do Not Stymie Democracy

Andrew J. Nathan

Confucianism and Democratization in East Asia. BY DOH CHULL SHIN. Cambridge University Press, 2011, 376 pp. $95.00 (paper, $28.99).

Beginning in the mid-1980s, the so-called third wave of democratization swept through Asia, bringing vibrant multiparty politics to former autocracies such as South Korea and Taiwan. Yet today, by Doh Chull Shin's count, the 16 countries of East and Southeast Asia now include only six functioning democracies—a ratio worse than the worldwide average of six democracies for every ten countries. The region hosts some of the world's most resilient authoritarian regimes; meanwhile, Cambodia, the Philippines, and Thailand have toggled between elected and unelected governments, and China's economic success and political stability have made the country a model studied enviously by strongmen around the world. What is it about Asia that makes it so hard for democracy to take root?

Part of the explanation may lie with culture. Yet discussions of culture can sometimes distort, rather than illuminate, the relationship between values and governance. That has certainly been the case during the long-running dispute over whether traditional Asian values are compatible with democracy—a debate Shin's book attempts to settle by separating myths from facts and assumptions from evidence.

FAMILY VALUES

The so-called Asian values debate was launched in the 1990s by the leaders of Malaysia and Singapore, who feared that the end of the Cold War and American pressure on China over human rights and democracy in the wake of the Tiananmen Square incident would destabilize the

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region. In a 1994 *Foreign Affairs* interview with Fareed Zakaria ("Culture Is Destiny," March/April 1994), Singapore's then ruler, Lee Kuan Yew, warned Western countries "not to foist their system indiscriminately on societies in which it will not work." Lee claimed that Western-style democracy, with its emphasis on individual rights, was not suited to the more family-oriented cultures of East Asia. In a speech given a few years earlier, Lee had argued that Asian societies would thrive not by adopting Western economic models, social norms, and governing strategies but by preserving what he described as the five relationships that are most important to Confucianism: "Love between father and son, one; two, duty between ruler and subject; three, distinction between husband and wife; four, precedence of the old over the young; and five, faith between friends."

Lee's vision, and others similar to it, became known as the Asian values hypothesis. In this view, not only do Asian values clash with Western liberal democracy, but those values were also the main factor behind the economic growth enjoyed by Asian countries during the 1990s. But this hypothesis has never been universally accepted, even in the region. As Kim Dae-jung, a South Korean dissident who later became South Korea's president, argued in a subsequent issue of *Foreign Affairs* ("Is Culture Destiny? The Myth of Asia's Anti-Democratic Values," November/December 1994), the biggest obstacle to democratization in Asia was not the region's culture, which Kim said "has a rich heritage of democracy-oriented philosophies and traditions," but rather "the resistance of authoritarian rulers and their apologists." Kim charged Lee with promoting a view of Asian culture that was "not only unsupportable but self-serving."

The debate has raged ever since. In the process, however, it has been defined by so many vague and contradictory ideas about what Asians actually believe that the first challenge of any data-driven inquiry is to specify what "Asian values" plausibly entail.

WHAT WOULD CONFUCIUS DO?

Shin goes about that task by looking to the history of Confucianism: reviewing the philosophy's classic texts, charting its evolution over time, and chronicling its spread from China to Japan, Korea, Singapore, Taiwan, and Vietnam, the six places that he classifies as belonging to "Confucian Asia," based on the philosopher's lasting influence there. He identifies five values that continue to shape the culture of these societies today: hierarchical collectivism (loyalty to group leaders), paternalistic meritocracy (benevolent rule by a moral elite), interpersonal reciprocity and accommodation (avoiding conflict with others), communal interest and harmony (sacrificing personal interest for the community), and Confucian familism (placing family above self). The presumed effect of these shared traits is a regionwide tendency to value the collective over the individual and harmony over self-assertion.

Shin sets out to measure how strongly each value is held in different Asian countries by analyzing data from two opinion research projects conducted in 2005–8: a 57-country survey conducted by the World Values Survey Association and a 13-nation Asian Barometer Survey.

(I am a member of the Asian Barometer Survey's steering committee, and I co-edited a book with Shin and others based on findings from the survey's previous wave.)

Critics view the survey-based study of culture as flawed in three ways. First, if culture is something shared by all members of a society, treating it as a distribution of values and attitudes among individuals ignores the way it works as a shared experience. Second, by reducing culture to a series of questionnaire items, the survey method oversimplifies complex, multilayered attitudes. Third, the questionnaire format forces respondents to choose among rigid response categories that cannot adequately reflect their beliefs.

For all that, the survey method remains indispensable. No other approach does as good a job of finding out what large numbers of people actually believe. And it is less reductive than the older method of gesturing in the direction of an entire nation and claiming that all its members share some vaguely defined set of norms. Shin's use of the data is particularly adept. For example, he measures the strength of paternalism in each country on the basis of how many Asian Barometer Survey respondents agreed with two statements: "The relationship between the government and the people should be like that between parents and children" and "Government leaders are like the head of a family; we should all follow their decisions." Shin combines those data with responses to two statements about meritocracy: "If we have political leaders who are morally upright, we can let them decide everything " and "If possible, I don't want to get involved in political matters." He uses the four questions to generate a scale of adherence to paternalistic meritocracy—a value to which, he finds, the citizens of authoritarian China, Singapore, and Vietnam are the most highly attached and the citizens of democratic Japan and Taiwan are the least attached, just as the Asian values hypothesis would predict.

But Shin's data produce quite a few findings that contradict the hypothesis. To begin with, the values of people in Confucian Asia are no more Confucian than those of people elsewhere; indeed, they are often less so. Smaller proportions of citizens in the region are devoted to paternalistic meritocracy than in non-Confucian Asia, which Shin defines as Indonesia, Malaysia, Mongolia, the Philippines, and Thailand. Compared with six other regions studied in the World Values Survey, Confucian Asia is only the fourth-most hierarchical, after the Muslim world, Africa, and Latin America. A plausible interpretation of such findings is that so-called Confucian values are not distinctively Asian at all; instead, they belong to a more universal category of traditional values. That interpretation gains support from the fact that the countries of Confucian Asia are far from monolithic in their norms and beliefs. Fewer than seven percent of Japanese adhere to hierarchical values, compared with more than 40 percent of Vietnamese; more than half of South Koreans are egalitarians, compared with only 30 percent of Chinese.

USING (AND ABUSING) CULTURE

The fact that traditionalism varies across and within societies is hardly surprising: some version of that finding is cooked into the survey method with its agglomeration of micro-level data. What is significant about Shin's finding is that it confirms a dominant theory about one of the main reasons individuals' values—and hence the values of major population segments—change over time. Traditional values are more prevalent among Asians who are older, are less educated, and have lower incomes—in other words, those with less exposure to the ideas, technologies, and economic activities that increasingly define modern life in both the developed and the developing world. As scholars working with survey data have long shown, traditional attitudes melt away when people move to cities, gain literacy, experience formal education, work in modern enterprises, and engage with modern media. Shin therefore argues that value diversity across Asia stems from the uneven effects of modernization.

But regimes are not helpless in the face of these forces. Authoritarian governments can use their educational and propaganda systems to persuade citizens that their existing practices are democratic enough. Shin finds that most Asians say they prefer to live in a democracy, but that support level drops when they are queried about the basic principles on which genuine democracy depends. What is striking is that the gap between support for democracy as a brand name and support for democracy as a set of procedures is more pronounced in authoritarian than in nonauthoritarian systems. For example, in China, 65 percent of respondents endorsed democracy in principle, but only 28 percent considered the opportunity to change governments through elections to be essential to democracy, and fewer than four percent said that the freedom to criticize people in power is essential. By cultivating nonliberal values among their citizens, some Asian regimes that outsiders classify as authoritarian, such as those in China and Vietnam, are able to portray themselves to their citizens as democratic. That they are more successful in doing so than most authoritarian regimes elsewhere probably has less to do with their citizens' values than with their vibrant economic performance and sophisticated propaganda systems.

Democracies, too, can influence or exploit culture to their own advantage. In fact, Shin finds that living in a democracy has an even greater impact than modernization on moving people away from traditional values. He shows that a person of a given age, gender, educational level, and income is significantly more likely to have given up his or her commitment to traditional values if he or she lives in a

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democratic country than if he or she lives in an authoritarian system. This reflects the fact that a democratic system, once in place, promotes values among its citizens that help it function.

Some forms of Asian traditionalism can even be helpful to democracies. According to Shin, Confucian support for strong families helps undergird trust and tolerance in the broader society, contradicting the widespread belief that particularistic loyalties are incompatible with democratic norms. Nor is paternalistic meritocracy an obstacle to democratization: in fact, it seems to be capable of promoting deference to democratic regimes as much as to authoritarian ones.

The Asian values hypothesis fails to account for the ability of regimes to shape culture, which is best seen as a resource exploited by regimes and their opponents on both sides of the democracy-authoritarianism divide. The values of citizens do not alone determine the kind of government a society will have.

A FAILED HYPOTHESIS

Since culture is not an iron cage, one must look to other factors to predict the future of governance in Asia. An important indicator is performance. Ultimately, the stability of a given regime depends to a great extent on its capacity to meet its citizens' needs. Economic stagnation, income inequality, and corruption undermine the legitimacy of any government.

Shin's findings imply, however, that authoritarian systems are more vulnerable to crises of legitimacy than democratic systems. In authoritarian Asia, high proportions of citizens consider democracy both desirable and suitable for their countries, with percentages ranging from in the 60s in China to in the 90s in Vietnam. By contrast, in countries where democracy has replaced discredited authoritarian regimes—for example, military rule in South Korea, one-party rule in Taiwan, and imperial rule in Japan—support for authoritarian alternatives ranges from four to 17 percent. Asian democracies have proved resilient to the impact of poor performance owing to the fact that their citizens continue to see their form of government as legitimate even when it struggles. Their authoritarian neighbors, meanwhile, can avoid legitimacy crises only by hiding corruption and keeping their economies growing. When their economies or social welfare systems falter, their citizens tend to demand governments more like their neighbors'.

Culture interacts with socioeconomic forces, political institutions, regime performance, and leadership to determine the fate of regimes, with no single factor serving as the master cause. The Asian values hypothesis is wrong in its claim that democracy cannot work in Asia. So, too, however, is the counterargument that modernization will automatically doom the region's authoritarian regimes. They may survive for a long time to come. But the cultural odds are stacked against them.

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Review Essay

Robespierre's Rules for Radicals

How to Save Your Revolution Without Losing Your Head

Patrice Higonnet

Robespierre: A Revolutionary Life. BY PETER McPHEE. Yale University Press, 2012, 352 pp. $40.00.

Revolutionary France in 1794 was a crucible, combining all the elements that would embody Western politics in the nineteenth and twentieth centuries. All eyes were on Paris. Depending on who was looking, Maximilien Robespierre was either a hero or a villain. Robespierre, once an obscure lawyer from northern France, had in four short years transformed himself, or so it seemed, into the chief architect of the transition from the hated ancien régime to an uncertain new order. That new order was threatened by invading armies from neighboring countries, counterrevolutionaries in the Vendée region, and intense divisions within the revolutionary ranks, including the Jacobin faction to which Robespierre belonged. The Catholic and conservative right feared the idea of a republic and desired a return to stability. The left wanted to create a virtuous society—but also simply wanted more bread. Welcome to modern politics.

Unrelenting in his attacks on all those whom he accused of wanting to stop the revolution, and fearless in his denunciation of corruption, Robespierre secured a place on the 12-member Committee of Public Safety, which served as the executive branch of government from 1793 to 1794. In that position, he wielded tremendous power. But his maneuvering space was, in fact, quite narrow. Robespierre faced the same dilemmas that have troubled all democratic revolutionaries ever since: how to uphold the defense of property while also pursuing universal rights, how to balance individual rights with those of the wider community, and how to achieve an outcome consonant with

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revolutionary ideals without resorting to means that would reproduce the sins of the old order. Fatefully, Robespierre chose to resolve this problem by trying to impose virtuous citizenship on French society by force.

Robespierre's response to resistance (real or imagined) was, in Hegel's formulation, to chop heads off as if they were cabbages. During the Reign of Terror, some 17,000 people were condemned to death by guillotine. Tens of thousands more were imprisoned. And all told, hundreds of thousands died during the civil wars that followed the revolution and which only ended with Napoleon Bonaparte's rise to power in 1799.

Why did Robespierre take the path of terror, or "terrorism," a term that was first used in a political context by Robespierre's enemies to describe his methods? Peter McPhee's new biography aims to untangle the personal and psychological motivations that shaped Robespierre's actions. But it also reminds readers that the Terror resulted from quandaries faced by all revolutionaries—including those attempting to construct brave new worlds today.

THE REVOLUTION MADE ME DO IT

To understand Robespierre, one must see the French Revolution in tragic terms. The revolution did not devolve into the Terror owing to the revolutionaries' zealous pursuit of *liberté*, *égalité*, and *fraternité*. To the contrary: it devolved because by July 1794, the overwhelming majority of the revolutionaries no longer wanted to reach those goals, whose immediate effects for them, they feared, might be the confiscation of their property, or the guillotine, or both. Indeed, once in power, the Jacobins proved completely incapable of resolving the contradictions of their own revolutionary program.

But it is also true that the revolution was influenced by Robespierre's internal conflicts. Robespierre detested violence and was opposed to capital punishment. Yet he persisted, against all evidence, in believing that smashing invisible (and usually imagined) conspiracies and executing his opponents would solve his problems and those of the revolution.

McPhee concedes that Robespierre was ultimately paranoid and made grave errors of judgment. He was not, however, "the emotionally stunted, rigidly puritanical and icily cruel monster of history and literature." For McPhee, it wasn't Robespierre who ruined the French Revolution: it was the revolution that brought a decent, sincere, and hard-working democrat to his doom.

But McPhee has little to say about why there was a French Revolution in the first place, or about why it proceeded so relentlessly. Most historians have relied on deterministic explanations of the revolution's deeper causes to explain its trajectory. For some on the left, such as the writer Jean Jaurès and the historian Albert Mathiez, 1789 was a critical step in a proletarian advance that would build strength in the European revolutions of 1848, the Paris Commune of 1871, and the Russian revolts of 1905, before finally coming to fruition in 1917, when the East was Red and the West was ready. For others, such as Alexis de Tocqueville, the nature of the French Revolution was revealed more by its continuity with the past, rather than its discontinuity. In 1789, the Old Regime died, never to be reborn. But the revolution that destroyed it nonetheless failed miserably because the

French were incapable of self-government, corrupted as they were by bad habits born of centuries of absolutist monarchy.

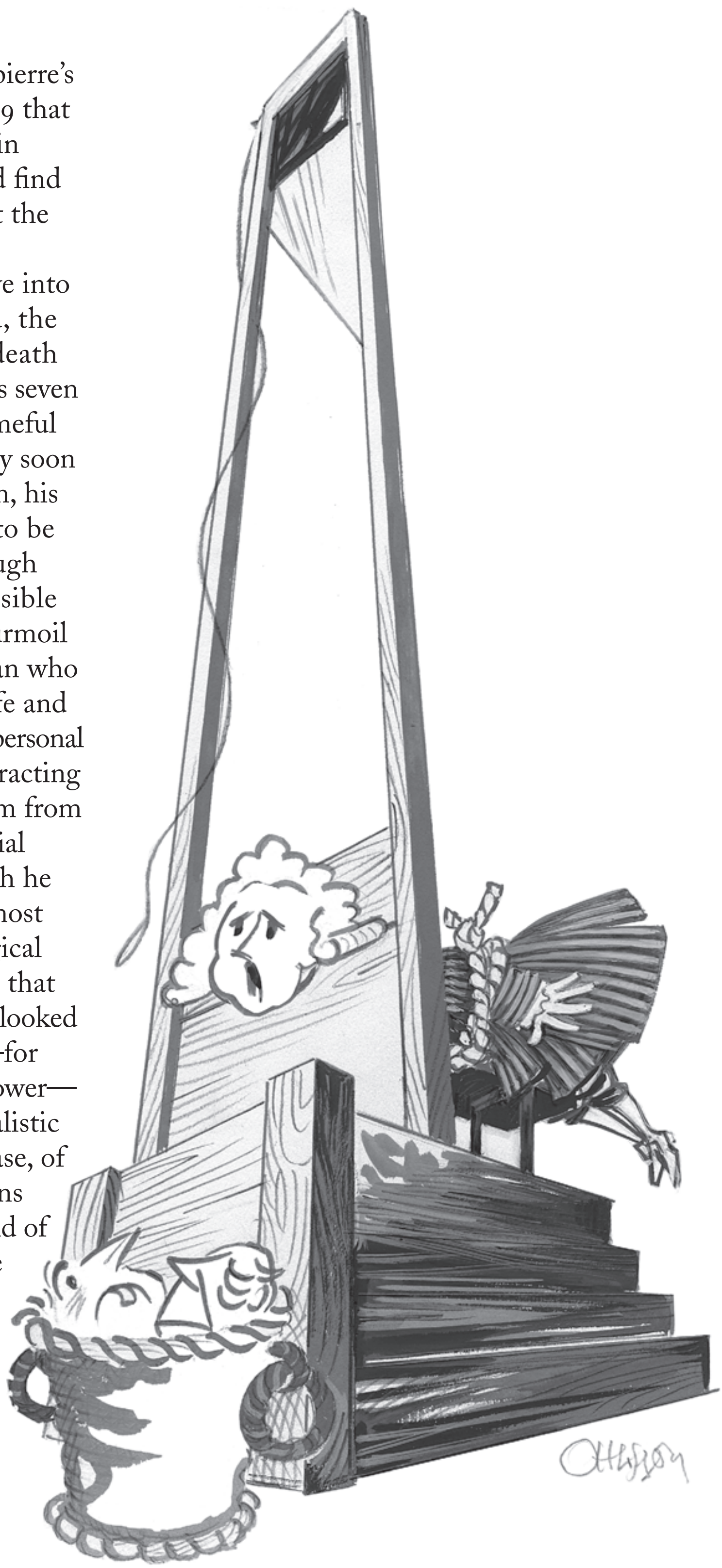
In this debate, McPhee's softly stated preference is to see the revolution—and, by extension, Robespierre—as an enduring model for all those who yearn for civic republicanism. To this effect, McPhee quotes the French historian Georges Lefebvre, who wrote that "Robespierre should be described as the first who defended democracy and universal suffrage . . . the intrepid defender of the Revolution of 1789 which destroyed in France the domination of the aristocracy."

Subscribing to this view, McPhee claims that the revolution shifted from the fraternal celebration after the fall of the Bastille in 1789–90 to the murderous terror and civil war of 1793–94 because Robespierre's dedication to the principles of republican democracy were unfortunately unshared. "Throughout the Revolution," McPhee writes, Robespierre "had seen those whom he had trusted betray that trust by compromise or treachery." Thus, to save the revolution from itself, Robespierre had to act as he did.

FOR IT BEFORE HE WAS AGAINST IT

But McPhee has frustratingly little to say about Robespierre's moral responsibility for the executions and bloodshed of the Terror. It might be true, of course, that if Robespierre wanted to retain his authority, he had no choice but to embrace violent repression. That, however, does not explain why he did it so brutally. Prior biographers have proposed all sorts of psychological explanations. But McPhee finds these unconvincing. "There is nothing in the evidence we have of Robespierre's actions and beliefs before May 1789 that would enable one to predict that, in particular circumstances, he would find repression and capital punishment the answer to dissent," he writes.

McPhee does nevertheless delve into Robespierre's troubled childhood, the signal events of which were the death of his beloved mother when he was seven years old and his derelict and shameful father's abandonment of the family soon after, which left young Maximilien, his younger brother, and their sister to be raised by various relatives. Although McPhee does not do so, it is possible to conclude that this childhood turmoil helped turn Robespierre into a man who both loved and hated bourgeois life and authority and tended to resolve his personal and professional problems by abstracting them as best he could, raising them from an insoluble, quotidian, and material context to a higher plane, on which he was never wrong. Politically, the most obvious instance of this psychological habit was his unvarying insistence that something that might at first have looked like the criminal act of a faction—for example, the Jacobins' seizure of power—was in fact a national and universalistic movement. The reverse was the case, of course, when it came to the actions of his enemies. In practice, this kind of self-deception allowed Robespierre to oppose authorities of all kinds until it became necessary to transform himself into a murderous authoritarian.



But the revolution posed a number of contradictions that he could not resolve through mental abstraction. In the spring of 1794,

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leading the Jacobin revolution required Robespierre to be for the rule of law and for its suspension, to defend and attack private property, to support and reject nationalism, to embrace feminism and antifeminism, and to promote religion and irreligion.

Likewise, although McPhee makes a persuasive case that Robespierre was totally dedicated to the ideal of *fraternité*, there is no denying that he was often viscerally opposed to applications of that ideal. In February 1793, when the Parisian sans-culottes rioted for food and soap, Robespierre scolded these cold, hungry, desperate foot soldiers of the revolution. "I am not saying that the people are guilty," he complained, "but when people rise, must they not have a goal worthy of them? Must paltry goods be of concern to them? . . . The people must rise up, not to collect sugar, but to bring down the tyrants."

In late July 1794, some of "the people" did just that, and Robespierre's failure to determine where bourgeois democracy might find its true limits finally led him to the guillotine. Afraid that they would be the next ones to be purged and sentenced to death, a number of Robespierre's former allies on the Committee of Public Safety and in the National Convention, the legislative assembly, ordered him to be arrested. Captured some hours later, and after having probably tried to shoot himself, he was guillotined the next day.

GOD, GUNS, AND GUILLOTINES?

In the contemporary era, Robespierre is often held responsible for the birth of terrorism. McPhee rejects this as unfair. "The Terror," he writes, "was not [Robespierre's] work but a regime of intimidation and control supported by the

National Convention and 'patriots' across the country." It is true that Robespierre did not dictate policy to the Committee of Public Safety. But he was nonetheless its most dedicated member, and he was rightly seen as its first spokesperson. Had he not been in power, the Terror might well have been less fierce and quite probably would not have lasted as long as it did.

But were Robespierre's ideas, and not just his actions, also to blame for the Terror? That is the contention of some on the contemporary American right, eager to link liberalism with authoritarian overreach. According to Rick Santorum, the erstwhile Republican candidate for president and a current standard-bearer of American conservatism, the godlessness of 1789 inevitably led to state terrorism. "What's left is a government that will tell you who you are, what you'll do, and when you'll do it," Santorum declared while campaigning. "What's left in France became the guillotine," he concluded, warning that if Americans "follow the path of President Obama and his overt hostility to faith in America, then we are headed down that road." In that prediction's broad outlines, Santorum might incidentally be surprised to find himself in the company of some former Marxist historians, who resoundingly and approvingly believed that the circumstances of Paris in 1794 were likely to be repeated someday.

Of course, both the right-wing and the left-wing versions of that prediction are unlikely to be borne out, at least in the West. The French in 1789–94 were the first modern nation forced to choose between political universalism and the realization of populist or utopian goals, and what happened to them has generally chastened their successors. Americans did not face that choice after 1776, and their descendants probably will not have to face it anytime soon. Occupy Wall Street and the Tea Party might represent steps toward that type of conflict. But short of a major economic collapse, it is hard to imagine that these two movements could capture the American political imagination as Jacobinism did for the French, and their enemies, in 1789–94.

But a situation closer to that of revolutionary France now exists in the nascent democracies of the Arab world. When confronted by the rise of Islamist parties, liberal revolutionaries in countries such as Egypt might be tempted to bracket their universalistic, democratic goals and resort to force and military rule to secure order. Of course, illiberal forces can face a version of Robespierre's dilemma, as well, and Salafi hard-liners might prove willing to put aside their commitment to genuine theocracy to seek accommodation with the wholly secular military.

But perhaps the most salient lesson Robespierre can offer today's Tea Partiers and Occupiers, Salafists and secularists, is that, contrary to what they might sometimes wish, economic, political, and social problems cannot be solved by simply cutting off somebody's head.

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Response

National Insecurity

Just How Safe Is the United States?

Be Afraid

PAUL D. MILLER

Micah Zenko and Michael Cohen ("Clear and Present Safety," March/April 2012) argue that "the world that the United States inhabits today is a remarkably safe and secure place." The country faces no "existential" threats, great-power war is unlikely, democracy and prosperity have spread, public health has improved, and few international challenges place American lives at risk. In light of these developments, they argue, the United States is safer today than it was during the Cold War.

The biggest problem with this argument is the authors' narrow definition of what constitutes a threat to the United States: a situation that poses existential danger or causes immediate bodily harm or death to U.S. citizens. This threshold is shortsighted and unrealistically high. If the same framework were applied to the twentieth century, then the outbreak of World War I and the German invasion of Poland in 1939 would not have been considered threats to the United States. But U.S. strategists then understood that because their country was a primary beneficiary and architect of the world order, any threat to that order was a threat to the United States itself.

So, too, today, there are major challenges to the global order that endanger U.S. national security, whether or not they pose existential or immediate threats. They include nuclear-armed autocracies, the spread of failed states and the rogue actors who operate from within them, and a global Islamist insurgency. Because the United States has lacked a single superpower rival and has focused chiefly on defeating terrorism and al Qaeda, it has underestimated the danger from all three.

ATOMIC AUTOCRACIES

The single greatest danger to global peace and to the United States is the presence of powerful autocratic states armed with nuclear weapons. Democracies, including those with atomic weapons, generally share a similar view of the world as the United States and thus rarely pose threats. Unlike during the Cold War, when the United States faced only two nuclear-armed autocratic adversaries, China and the Soviet Union, now it may soon face five:

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Russia, China, North Korea, Pakistan (if civilian rule there proves illusory and relations with the United States continue to deteriorate), and Iran (should its nuclear program succeed). All these countries are at least uncooperative with, if not outright hostile to, the United States. Zenko and Cohen are sanguine about the prospects of great-power war, but a militarized crisis involving nuclear weapons states is more likely today than at any time in decades.

Russia no longer purports to lead a global revolution aimed at overthrowing all capitalist states, but its contemporary ideology—authoritarian, nationalist, and quasi-imperialist—threatens Europe's future freedom and territorial integrity. The Kremlin was likely involved in the 2007 cyberattack on Estonia, a NATO ally, which targeted the country's parliament, government offices, banks, and media organizations. And in 2008, Russia invaded Georgia, which had been promised future NATO membership. As his popularity at home erodes, Russian President Vladimir Putin may once again allow a foreign crisis to escalate to win nationalist plaudits. For more than 70 years, U.S. policymakers have equated Europe's security with that of the United States; it is that notion that gives credence to the U.S. presidential candidate Mitt Romney's contention that Russia is the United States' "number one geopolitical foe."

Meanwhile, China clearly poses a greater danger today than it did during the Cold War. The United States and China fought to a bloody stalemate in the Korean War and remained enemies for the next two decades. But crippled by economic weakness, in 1972, Beijing embraced diplomatic relations with Washington. China's power quickly grew as the country liberalized its economy and modernized its military. It is now a formidable power, armed with nuclear weapons and a ballistic missile capability, and it has invested heavily in building up its navy. Its increasing strength has emboldened it to aim more overtly at reducing U.S. influence in East Asia. The same Pentagon report that Zenko and Cohen cite to calm fears about China also notes that "Beijing is developing capabilities intended to deter, delay, or deny possible U.S. support for [Taiwan] in the event of conflict. The balance of cross-Strait military forces and capabilities continues to shift in the mainland's favor." And because U.S. relations with China are prone to regular crises, as during the Tiananmen Square massacre in 1989 and after the accidental U.S. bombing of the Chinese embassy in Belgrade in 1999, a militarized confrontation with China is more likely today than at any point since the Korean War.

In addition to Russia and China, there may soon be up to three more nuclear autocracies hostile to the United States. North Korea and Iran are avowed enemies of the United States, and distrust between the United States and Pakistan has never been higher. Pakistan and North Korea tested nuclear weapons in 1998 and 2006, respectively, and Iran will almost certainly develop a nuclear weapons capability. (To be sure, a U.S. or Israeli strike could temporarily delay Iran's nuclear program. But such an attack might well provoke a wider war, illustrating once again the dangers rife in the international system.) All three states have invested in medium- and long-range ballistic missiles that could hit U.S. allies, and despite the failure of North Korea's recent missile test, the United States must take seriously the possibility that any of these three states could soon be able to produce missiles that could hit the U.S. homeland. North Korea's nuclear arsenal is very small, and it would take years for Iran to accumulate a nuclear stockpile. But these states need only a few dozen warheads to pose a major challenge to the United States. What is more, because of their technological and conventional military weakness, North Korea, Pakistan, and Iran have sought to level the playing field by investing in unconventional capabilities or terrorist organizations, the latter of which could be used to carry out a nuclear attack.

PIRATES AND TERRORISTS AND HACKERS, OH MY!

In addition to traditional threats from nuclear-armed states, the United States faces dangers that it rarely or never encountered during the Cold War: failed states and the rogue actors that operate from within them, including pirates, organized criminals, drug cartels, terrorists, and hackers.

Zenko and Cohen correctly observe that these kinds of dangers have often been overblown. There is nothing new about pirates and terrorists, for example, and they have rarely been more than a nuisance. What is new are their increased capabilities to threaten the United States, capabilities magnified by technology, globalization, and state failure. Travel and communication have become easier, weapons technology is more lethal, and the growing number of lawless countries offers fertile ground for rogue actors to operate with impunity. At the same time, U.S. border, port, and infrastructure security has not kept up. Osama bin Laden harmed the United States in a way that would have been inconceivable for a nonstate actor during the Cold War. And even if the United States can prevent another 9/11 or a crippling cyberattack, the aggregate effects of an increasing number of malicious nonstate actors include rising costs of sustaining the global liberal order, a slowing of the gears of normal diplomatic and economic exchange, and heightened public suspicion and uncertainty.

The most dangerous threat of this type is what the counterterrorism scholar David Kilcullen has called the global Islamist insurgency, consisting of campaigns by Islamist militants to erase Western influence in Muslim countries, replace secular governments in the Muslim world with hard-line regimes, and eventually establish the supremacy of their brand of Islam across the world. Some Islamist organizations have directly targeted the United States and its allies in dozens of attacks and attempted attacks over the last decade. Of these groups, Zenko and Cohen mention only al Qaeda, and they repeat the Obama administration's claim that the organization is near defeat. The claim is wrong, but even if it were true, it would be irrelevant: al Qaeda is only the most famous member of a global network of Islamist movements that oppose the United States. If such a movement were to take over any country, that country would offer a safe haven to al Qaeda and its affiliates, allies, and copycats. But if one were to seize control of Pakistan, with its nuclear weapons, or Saudi Arabia, with its oil wealth, the resulting regime would pose a major threat to global order.

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During the Cold War, the only phenomenon comparable to today's proliferation of militant Islamist groups was the Soviet Union's sponsorship of communist insurgencies around the world. But the Islamist movements will likely prove more resilient and more dangerous, because they are decentralized, their ideology does not rest on the fate of one particular regime, and globalization has made it easier for them to operate across borders. There is also a greater risk that Islamists will acquire and use weapons of mass destruction, since they are not accountable to one particular sponsoring power that can be deterred.

Zenko and Cohen are right that the United States needs to reinvest in its tools of soft power, including diplomacy and development. But those tools are not enough to cope with hostile states armed with nuclear weapons, rogue actors empowered by technology and globalization, and a worldwide network of insurgent and terrorist groups that claim they have a religious duty to oppose the United States. In attempting to manage or defeat these threats, the United States cannot afford to reduce its military capabilities, as Zenko and Cohen advise. Waiting to respond to dangers only once they threaten the very existence of the United States, instead of trying to prevent them from materializing, is an irresponsible basis for foreign policy.

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Zenko and Cohen Reply

In "Clear and Present Safety," we argued that the world the United States inhabits is a remarkably safe place and that politicians, government officials, military leaders, and national security experts regularly overstate threats to the country. In this regard, Paul Miller's response is not an indictment of our thesis but a strong corroboration.

Indeed, it is hard to imagine a better example than Miller's response of how potential challenges are regularly inflated in order to justify an ever-expanding national security infrastructure. Miller relies on alarmist, worst-case scenarios and dubious historical analogies. Even worse, he displays a surprising lack of confidence in the United States' ability to respond to emerging challenges.

In Miller's dystopian worldview, every potential provocation, no matter how far-fetched, both is likely to occur and requires a militarized response.

Take his approving citation of Mitt Romney's claim that Russia is the United States' "number one geopolitical foe." Despite his halfhearted caveat that Moscow "no longer purports to lead a global revolution aimed at overthrowing all capitalist states," he still seems to believe that a demographically, economically, and diplomatically weakened Russia is bent on imperiling European security. Reading Miller, one would never know that a massive, 28-state military alliance, comprising 3.5 million active-duty troops and close to 2,500 nuclear weapons, exists in large measure to block Russian revanchist aspirations.

Miller claims that "Iran will almost certainly develop a nuclear weapons capability." That Tehran has decided to pursue nuclear weapons, however, would be news to the Office of the Director of National Intelligence and the International Atomic Energy Agency, neither of which shares Miller's view. Even if Iran did go nuclear, there is little reason to believe that the United States could not contain it, just as it has contained numerous other nuclear powers since World War II.

Miller speaks of a global Islamist insurgency and warns grimly that Pakistan or Saudi Arabia could be taken over by radical Islamists. These are doomsday scenarios that have been batted around for the last decade but are unlikely to materialize. This is largely because jihadist groups have shown little actual ability to seize power in these countries, where they enjoy paltry public support.

Miller also argues that any authoritarian state with a few dozen nuclear weapons would "pose a major challenge to the United States." But he omits the motive for these countries to seek nuclear weapons—defense—and discounts the United States' own formidable nuclear deterrent. In the past ten years, North Korea has developed a small nuclear capability, but that acquisition has had little effect on the strategic balance on the Korean Peninsula because of U.S. conventional and nuclear weapons deployed in the theater. What is striking, although Miller mentions the failure of Pyongyang's most recent missile test, it seems to have had no impact on his dire prediction of a North Korean missile threat to the U.S. homeland.

Finally, Miller argues that "a militarized confrontation with China is more likely today than at any point since the Korean War." His basis for this assertion is that U.S.-Chinese relations "are prone to regular crises," such as those during the Tiananmen Square massacre in 1989 and following the accidental U.S. bombing of the Chinese embassy in Belgrade in 1999. But neither of these disputes, nor the many others that have occasionally roiled relations in the last two decades, came even close to provoking a militarized conflict.

The reason is both obvious and important: neither Washington nor Beijing has any interest in going to war, and both have employed formal and informal mechanisms to prevent conflict, including the exchange of special envoys, the Military Maritime Consultative Agreement, and mutual membership in the World Trade Organization. Indeed, the U.S.-Chinese relationship has been defined by intermittent cooperation and mutual interest on such issues as curbing nuclear proliferation, enhancing global economic stability, and even putting in place sanctions against Iran. And as the recent incident involving the Chinese dissident Chen Guangcheng demonstrated, neither side wants to openly confront the other. So it remains a mystery why Miller contends that "China clearly poses a greater danger today than it did during the Cold War."

Just as Miller overestimates the threats the United States faces, he also underestimates Washington's ability to respond to those challenges. The United States has unmatched intelligence and analytic capabilities and some of the world's best diplomats. Its defense budget is larger

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than those of the next 14 countries combined and supports over 2,000 operationally deployed nuclear weapons; an air force of some 4,000 aircraft; a navy with 285 ships, including 11 carrier strike groups; and 770,000 active-duty soldiers and marines. Even if this budget is reduced by eight percent over the coming decade, as Congress agreed it would be as part of the 2011 debt-limit agreement, the men and women who protect the country and its interests will still be able to meet the challenges that may come their way.

Miller is right to conclude that "waiting to respond to dangers only once they threaten the very existence of the United States, instead of trying to prevent them from materializing, is an irresponsible basis for foreign policy." He is wrong, however, about the appropriate strategy and tools to stop these dangers from emerging.

Our essay argued that the United States must rebalance its national security strategy to de-emphasize the currently dominant role of the military. Miller apparently disagrees, but he never explains why a highly militarized foreign policy can best manage the challenges facing the United States in the twenty-first century. Even if one accepts Miller's darkly pessimistic worldview, it does not necessarily follow that the armed forces should take the lead in carrying out U.S. foreign policy. If the past decade demonstrated anything, it is that military action is not always the best way to keep the country safe and healthy, especially if one wants to avoid the accompanying cost in blood and treasure and a host of unintended consequences.

Since September 11, 2001, U.S. defense spending has grown by 70 percent, intelligence spending by 100 percent, and homeland security spending by 300 percent. Miller implicitly argues that these efforts have not made the United States any safer. But he refuses to provide any alternatives, sticking to the same pattern of overreaction that our essay addressed. It makes little sense to continue to base U.S. national security strategy on such a flawed premise and yet expect a different outcome.

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Is Iraq on Track?

Democracy and Disorder in Baghdad

Morning in Mesopotamia

ANTONY BLINKEN

Ned Parker's article "The Iraq We Left Behind" (March/April 2012) gives the impression that Iraq is a hybrid of North Korea and Somalia, part ruthless dictatorship and part lawless wasteland: in short, "the world's next failed state." Leaving aside the inherent contradiction in describing a country as both authoritarian and anarchic, Iraq today bears little resemblance to the caricature portrayed in these pages.

The article glossed over, or ignored altogether, the clear, measurable progress Iraq has made in the few short years since it lurched to the brink of sectarian war. Since U.S. President Barack Obama took office with a commitment to end the war responsibly and initiated the drawdown of 144,000 troops, violence in Iraq has declined and remains at historic lows—a trend that has continued since the last U.S. troops departed late last year. Weekly security incidents fell from an average of 1,600 in 2007–8 to fewer than 100 today. Meanwhile, since 2005, oil production, the lifeblood of Iraq's economy, is up 50 percent, to almost three million barrels per day, providing the revenue that enabled lawmakers to pass a $100 billion budget in mid-February. Recent months have also seen unprecedented steps toward Iraq's reintegration with the region, including the appointment of a Saudi ambassador to Baghdad for the first time since 1990, visits to Iraq by senior Emirati and Jordanian officials, the settlement of Iraq's dispute with Kuwait over Saddam Hussein's confiscation of Kuwaiti aircraft, and Baghdad's playing host to the Arab League summit. U.S. military forces were critical to setting the conditions for these achievements. They succeeded, at great cost, in restoring a measure of stability when all seemed lost and in training an Iraqi army that is now defying doubters and capably providing security for the country. These advances created the time and the space for what U.S. Vice President Joseph Biden sees as the most important development in Iraq in recent years: politics supplanting violence as the dominant means for the country's various factions to settle their disputes and advance their interests.

For the past two years, critics repeatedly and mistakenly warned that a string of political crises, over the election law, the de-Baathification process, the election itself, and the formation of a government, would lead to renewed sectarian violence. Each time, however, the Iraqis resolved their differences through the political process, not violence, with quiet and continuous assistance from the United States.

Parker lauds as a golden age in Iraqi politics the period from late 2007 through late 2008, which he attributes to the large U.S. troop presence and the U.S. government's focus on promoting democracy. During that purported halcyon era, charges of terrorism leveled against a Sunni Arab politician led followers of the Shiite cleric Muqtada al-Sadr, the Sunni Arab parties, and those loyal to the secular Shiite leader Ayad Allawi to boycott the parliament for eight months, despite the presence of more than 150,000 U.S. troops in the country. A similar boycott early this year, when all U.S. troops were gone, lasted just two months.

STILL THE ONE

Parker also claims that the Obama administration turned its attention away from Iraq after the last Iraqi election, in March 2010, and abandoned the democratic principles for which the United States had fought. In fact, during the period he describes, the "largely absent" vice president made four visits to Iraq, spoke on the phone dozens of times with senior Iraqi officials from every major bloc, and, at Obama's request, chaired a monthly cabinet-level meeting on Iraq. I and other senior U.S. officials based in Washington, including Deputy National Security Adviser Denis McDonough and Deputy Secretary of State Thomas Nides, each made multiple trips to Iraq. Most important, the U.S. embassy in Baghdad, led by Ambassador James Jeffrey, was as engaged with Iraqi leaders, day in and day out, as at any point since the 2003 invasion. In virtually every meeting and public statement, we reaffirmed the United States' commitment to the rule of law and Iraq's constitution.

To cite one example, during the lengthy government-formation period that followed the last election, the embassy team and senior officials from Washington shuttled among the parties for months. The president and the vice president were deeply engaged. When the deal was finally sealed, there were four people in the room: Iraqi Prime Minister Nouri al-Maliki; Allawi, the leader of the Iraqiya Party; Massoud Barzani, president of the Kurdish Region; and Ambassador Jeffrey.

As that episode suggests, Iraq's leaders continue to strongly desire U.S. engagement. The United States remains the indispensable honest broker: the only party trusted by, and in daily contact with, all the leading blocs. In virtually every meeting, including when Maliki visited Obama in Washington last December, we have made clear to our Iraqi counterparts that continued U.S. support requires that they compromise across sectarian lines, respect the rule of law, and uphold their constitution.

We are clear-eyed about the fundamental challenges that Iraq still faces: finding workable ways to share power and holding all sides to the agreements they make, stamping out the violent extremists who continue to launch outrageous attacks, resolving long-standing disputes about the country's internal boundaries, and

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ensuring that the necessary legal framework and financial arrangements are in place to allow the energy sector to further flourish.

But a little context is in order. For more than three decades, Iraq had known nothing but dictatorship, war, sanctions, and sectarian violence. In just three years, its progress toward a more normal political existence has been remarkable. Iraq still has a long way to go, but today it is less violent, more democratic, and more prosperous than at any time in recent history, and the United States remains deeply engaged there. To call Washington "absent" turns a blind eye to the facts. To call Iraq a "failed state" renders that term meaningless.

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A Solid State

NORMAN RICKLEFS

Ned Parker's article reflects the new conventional wisdom among media outlets, think tanks, and large swaths of the policymaking and military communities: that Iraq is on its way to becoming a failed state, if it isn't one already. Long gone is the vision of a U.S.-aligned, democratic Iraq serving as a beacon to the rest of the Middle East. The country, pessimists such as Parker argue, suffers from terrorism, organized crime, corruption, human rights abuses, an absence of law and order, and a lack of basic services that is shameful for such an oil-rich place.

These problems are real and must be addressed. But those who decry Iraq's current state would do well to remember that the country is just now emerging from years of war, dictatorship, and sanctions. It achieved true sovereignty only in December 2011, when the last U.S. forces withdrew. For all its flaws, Iraq is actually moving in the right direction.

To begin with, the security situation has improved dramatically. Occasional coordinated terrorist attacks continue, mostly targeting Iraqi security forces and police. Only a few years ago, by contrast, the chief threat was not just irregular terrorism but also rocket and sniper attacks, kidnappings, drive-by shootings, and pitched battles in the streets. In 2006, the government did not control large parts of the capital, let alone the countryside, and elements of the security forces were unaccountable to those in power. All told, the violence that year left approximately 30,000 Iraqi civilians dead.

Since then, things have turned around. In 2007, an armed Sunni tribal movement known as the Anbar Awakening gained the upper hand over al Qaeda and, with support from U.S. and allied forces, inspired similar anti–al Qaeda groups within the Sunni community. At the same time, the U.S. troop "surge" bolstered the confidence of Iraqi government forces and anti–al Qaeda Sunnis. Meanwhile, Sunnis in Baghdad finally realized that they were losing the battle against the Shiite militias and that their past support for the insurgents had only weakened their position. These developments led to a dramatic reduction in violence and helped turn former Sunni fighters into U.S. allies.

To be sure, the most radical Sunni militias continue to attack the Iraqi

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government and its institutions. Terrorist attacks spiked last May, after the killing of Osama bin Laden in Pakistan, and last December, following the final withdrawal of U.S. troops. But these militias have not achieved their aim of bringing down the Iraqi government, nor have they reignited the civil war Iraq suffered in 2006 and 2007. Terrorism and criminal violence now claim on average fewer than 60 lives a week: a 90 percent reduction from 2006. What is more, most of these casualties are now caused by occasional high-profile al Qaeda attacks, not by the constant turf wars between sectarian groups that used to ravage streets and neighborhoods across the country.

Meanwhile, the Iraqi government has reined in the Shiite militias that once controlled large portions of Baghdad and the southern provinces and had fueled vicious sectarian conflicts in the mixed Sunni-Shiite provinces, especially Diyala and Nineveh. A crucial turning point came in March 2008, when Prime Minister Nouri al-Maliki sent the Iraqi army into the streets of Basra to confront militias under the command of the Shiite cleric Muqtada al-Sadr. Then, in December 2011, Maliki convinced the League of the Righteous, a prominent Shiite militia that had kidnapped and attacked U.S. forces and contractors, to renounce violence and enter into talks with his State of Law bloc.

THE BALLOT, NOT THE BULLET

Iraq's politics have also matured. Maliki's campaign in Basra demonstrated that a Shiite leader could take on Iranian-backed Shiite militias. Since then, the country's political system and civil society have mostly rewarded moderates and sidelined sectarians and radicals. In Iraq's 2010 parliamentary elections, Maliki's Dawa Party included prominent Sunni leaders on its list. Despite its history as a Shiite Islamist movement, Dawa positioned itself as centrist, and voters responded by giving the party 89 out of 325 seats in the legislature. At the same time, the secular, moderate, and mostly Sunni Iraqiya bloc, led by the former Shiite prime minister Ayad Allawi, won 91 seats. Only the Sadrists espoused a radical, anti-American message during the campaign. But they, too, moved away from organized violence and rebranded themselves as a political movement, which helped them capture 40 seats. In short, the election revealed Iraqi voters to be mature, moderate, and eager to move beyond years of bitter sectarian politics.

Since then, Iraq has suffered sporadic crises. After the election, politicians struggled to form a government for almost nine months, as Maliki and Allawi, neither of whom had won a majority, debated who had the right to form a coalition. Following a deal brokered by the United States and Iraqi Kurdish leaders, a national unity government was finally seated in December 2010. Another particularly tense moment came in December 2011, when Maliki announced that an arrest warrant had been issued for the prominent Sunni leader Tariq al-Hashimi, who occupies the mostly ceremonial post of vice president. This led to a brief boycott by the Iraqiya coalition, whose members have since returned to parliament.

Despite such hiccups, Iraq now has a functioning government, comprising representatives of all the major blocs, including Sunni ministers of finance, technology, education, and agriculture from the Iraqiya bloc. Iraqi democracy is far from perfect, but Baghdad was never going to turn into Copenhagen overnight.

Parker and others correctly note that Maliki has concentrated power in his own hands; since 2006, he has increased his direct control over the security forces and deftly played rival political forces against one another. But the prime minister's power will continue to be balanced by an increasingly independent parliament. Under the leadership of Speaker Osama al-Nujaifi, of Iraqiya, Iraq's parliament, the Council of Representatives, has begun asserting itself for the first time. The council resisted attempts by Maliki to sack the Independent High Electoral Commission in 2011 and recently extended the term of the commission despite the prime minister's opposition. Furthermore, Maliki and Nujaifi have demonstrated their ability to work together to resolve issues: they reduced the number of ministries in the government in mid-2011 and brokered an agreement between their parties over the Iraqiya boycott in January.

Iraq's economy has also made great strides, and the International Monetary Fund predicts that it will grow by more than 12 percent this year. Iraq holds foreign reserves of roughly $50 billion, its budget deficit stands at only 14 percent of GDP (down from approximately 19 percent in 2010), and inflation hovers around four percent. The value of the country's currency, the dinar, has remained mostly steady since the drop in violence in mid-2008. Meanwhile, oil revenues are set to increase as the government continues to cooperate with international companies on exporting, producing, and storing oil. Although U.S. investment in the country still lags, money has poured in from Europe, China, Iran, and Turkey. Foreign investment has risen from about $5 billion in 2006 to about $50 billion today and continues to grow roughly in line with GDP.

None of this is to deny Iraq's many problems. As Parker observes, the absence of true rule of law poses the greatest threat to the country's success. Pervasive corruption and human rights abuses, particularly in secret detention centers where prisoners are presumed guilty and denied habeas corpus, undermine Baghdad's claim to democratic legitimacy. Iraq's inefficient, Byzantine bureaucracy consistently fails to address these issues, in the process stymying growth and deterring foreign investment.

But these issues form a central part of the national discourse. Iraq's irrepressible media and its vocal political class consistently work to hold the country's leaders responsible for their deficiencies. And as security and the economy continue to improve, Iraq's civil society will be more empowered to shine light on the abuses and inefficiencies of the bureaucracy. Iraq is now an independent democracy that can provide for its own people. After decades of war and dictatorship, that is no small achievement.

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Parker Replies

As long as Iraq stays quiet, the Obama administration appears content with a deeply dysfunctional government in Baghdad that has tightened its grip on power and regularly violates human rights. Just as U.S. President George W. Bush once declared the war in Iraq a "mission accomplished," the Obama White House similarly boasts about its own Iraq policy, ignoring inconvenient realities in order to reap short-term political gains.

Antony Blinken tailors facts to suit his arguments instead of seriously addressing the issues my article raised. He gives the Obama administration credit for the seating of Iraq's current government in December 2010 and points to Vice President Joseph Biden's role in the process. But what Blinken fails to mention is that after making a short visit to Baghdad in January 2011, Biden did not return for another ten months. During his absence, the U.S.-brokered power-sharing deal unraveled, relations deteriorated among the country's political parties, and Prime Minister Nouri al-Maliki's military office continued operating secret detention centers, notorious for their alleged use of torture.

Iraq also failed to satisfy key conditions agreed on by its major political factions for the new unity government, including the creation of a special post for Ayad Allawi, Maliki's chief competitor. All of Iraq's security posts remain under the prime minister's control, despite stipulations during the 2010 negotiations that the main parties would apportion control of the Defense and Interior Ministries. Iraq's main Shiite, Sunni, and Kurdish factions have shown themselves unable to share power or foster mutual trust, undermining the only hope for democracy in the country. Rather than try to build a harmonious government, Maliki has driven his Sunni vice president from office on controversial terrorism charges, intimated that he might do the same to his Sunni finance minister, and attempted to fire his Sunni deputy prime minister for calling him a dictator.

Norman Ricklefs is correct to note that the Iraqi people demonstrated a preference for secular, nationalist parties in the 2010 election. But he and Blinken ignore the ugly sectarian turn that the country's politics has taken since. Maliki's state-controlled television channel popularizes stories of Shiites killed by Sunni armed groups, and the prime minister often makes speeches that pander to the Shiite community's fears. Sunni parties indulge in the same demagoguery. Ricklefs sees the decision of the League of the Righteous, a Shiite militia, to disavow violence and enter into talks with Maliki's political bloc as a positive development. But some caution is in order: Iraqi interpreters who once worked for the U.S. military report that the reformed militia continues to threaten their lives.

Celebrating Iraq's improved security is equally premature. Blinken writes that violence "has declined and remains at historic lows." But with as many as 300 people still dying each month from bombings, rocket attacks, and shootings, such declarations offer ordinary Iraqis little in the way of comfort.

Most troubling to observe is how the Maliki government has abandoned any concern for civil liberties since the 2010 election. In the intervening months, security forces have raided the offices of nongovernmental organizations, including the human rights group Where Are My Rights. Authorities beat, jailed, and even killed some civilian protesters during demonstrations last year inspired by the Arab Spring. For all the talk of Iraq's vigorous press, 65 journalists were arrested and another three were murdered in 2011.

Gone is any semblance of accountability or transparency. Several Iraqi human rights officials who uncovered abuses in the so-called black jails run by Maliki's military office have been threatened with arrest and chased from the country. Similarly, anticorruption officials have been harassed and forced from office for investigating allegations of graft on the part of both Maliki's associates and their opponents. Absent a real commitment to combating corruption, Iraq will fall victim to the resource curse that has plagued other oil-producing countries. The gains from increased energy production fill the coffers of officials in the Green Zone, but they do not benefit the majority of the Iraqi public. Despite hundreds of billions of dollars in oil revenues, 23 percent of the country lives in poverty.

Both Blinken and Ricklefs argue that Iraq, for all its flaws, has come a long way from the depths of its recent sectarian civil war. But such comparisons miss the point. Today's violence is orchestrated by the state as much as by any armed group. Fewer Iraqis cower in fear of al Qaeda, but security forces now torture detainees to extract confessions. Shiite militias are less capable of intimidation, but judges and civil servants know they must serve a political agenda or face retribution—even death. On the surface, Iraq may be calmer than it was five years ago, but it has not become a healthy state.

The West should harbor no illusions. Without impartial, transparent institutions, Iraq will fall victim to authoritarianism or civil war, if not both. The country can still be saved, but to pretend that it is marching toward democracy risks dooming it to the opposite.

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How Busted Is Brazil?

Growth After the Commodities Boom

Stability Is Success

SHANNON O'NEIL

Ruchir Sharma ("Bearish on Brazil," May/June 2012) argues that Brazil's incredible rise over the past ten years has depended on the sale of commodities, and that as commodity markets begin to slow, so, too, will Brazil's growth. Sharma correctly notes that in the coming years, Brazil will likely need to confront a decline in commodity purchases from China. But he fails to recognize that economic stability has also driven Brazil's growth.

Throughout the late twentieth century, Brazil suffered from failed stabilization policies and devastating bouts of hyperinflation. In 1994, however, Brazil introduced a new currency, the real, which has kept inflation in check. Around this time, the government also began lowering tariffs, opening up markets, and privatizing industries, policies entrenched over the next decade by former Brazilian President Luiz Inácio Lula da Silva. These reforms convinced local and international skeptics that Brazil would not return to the days of closed markets and inflation—an evolution that, more so than the commodity craze, has spurred Brazil's economic boom over the last decade.

Sharma argues that the very measures Brazil has taken to reach this stability will hold the country back. In particular, he claims that Brazil's spending on welfare programs, such as Bolsa Família, an initiative that provides cash transfers to low-income parents who get their children vaccinated and keep them in school, has reduced inequality at the expense of development. Yet history suggests that to achieve sustainable growth, governments must care for the young, the old, and the less fortunate. European countries and the United States began building their own social safety nets at far lower levels of per capita income than those of emerging-market states today, thus expanding productivity and boosting demand. Indeed, numerous studies conducted by the World Bank and others suggest that the reduction of inequality in middle-income countries, such as Brazil, actually boosts economic progress.

What is more, several studies of Brazil itself, performed by Fundação Getulio Vargas, a Brazilian research institution, demonstrate that Bolsa Família has increased self-employment and domestic consumption. Other studies, such as ones conducted by the International Food Policy Research Institute, show that the children of the families that receive aid from Bolsa Família are healthier and spend more time in school—offering the best hope for the increase in skilled workers that Sharma prescribes.

Meanwhile, Sharma compares Brazil to China, arguing that Brasília has restrained development whereas Beijing has promoted it. Yet in making that contrast, Sharma overlooks the disparate levels of average income between Brazil and China, especially for the poor. According to the International Monetary Fund, per capita income in China, where GDP has risen rapidly over the past two decades, remains less than half of that in Brazil. And over the past ten years, the average income of Brazil's bottom 20 percent has grown by around ten percent, the same rate as China's total GDP growth.

Brazil has also outperformed China in enlarging the size of its middle class. According to a study performed by the Brookings Institution, roughly half of Brazil's population is now considered middle class, compared with less than ten percent in China. Brazil has brought so many people out of poverty not just by selling commodities but also by diversifying its economy, expanding its financial and service sectors, and reducing inequality. Such policies have created a strong base of domestic consumers that has helped power Brazil's economic rise and tempered the effects of external shocks, such as the 2008 global financial crisis. Despite all of this, Sharma mentions the Brazilian middle class only once.

Brazil faces many problems, from poor education and infrastructure to a complex bureaucracy and complicated tax regulations. The question is whether the country can solidify its gains and attain long-term growth—an outcome that will depend on far more than commodity markets.

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Resilient Brazil

RICHARD LAPPER

Ruchir Sharma is correct that many challenges lie ahead for Brazil. Its savings rate is too low. Its infrastructure is inadequate. A dense bureaucracy and powerful vested interests often block necessary change. Reform efforts there move too slowly. But Sharma fails to see many positive signs that suggest that Brazil will continue to grow.

It is certainly true that over the past decade, Chinese demand for commodities triggered an economic boom in Brazil. Brazilian exports to China generated large trade and current account surpluses and allowed Brasília to build up its foreign reserves. But Sharma wrongly asserts that Brazil spent this windfall on constructing a "sleepy" welfare state. Instead, trade surpluses helped stabilize Brazil's external accounts, reinforcing the confidence of local businesses and foreign investors in Brazil's economy. Most of all, Brazil has benefited from a major expansion of its formal labor force, reducing the large

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number of people who worked in the black market and did not pay taxes, such as street sellers and unregistered domestic maids. This growth in formal employment has occurred both in the public and in the private sector; companies, assured of their longer-term prospects, began hiring, encouraged by government policies that made it easier to borrow and raise capital. Since 2000, 12.3 million formal jobs have been created, compared with only about 2.1 million during the previous decade.

Once formally employed, these Brazilians found it easy to borrow thanks to government programs that encourage banks to extend loans, such as an experimental system in which lenders collect debt repayments directly from the paychecks of borrowers instead of from the borrowers themselves. These borrowers now have access to such items as cars, television sets, and cell phones. Increases in the minimum wage have also raised the income of the poor. Social programs such as Bolsa Família, meanwhile, have boosted their living standards and provided them a safety net.

Together, these efforts have brought millions out of extreme poverty and increased the relative size of the middle class, known in Brazil as Class C (those with average monthly household incomes between $860 and $3,750, according to Fundação Getulio Vargas). Foreign companies, seeking new markets, have invested billions in Brazil, giving its citizens access to everything from cosmetics to cars. With unemployment still relatively high compared to in the 1990s, despite a recent decline, and loans to individuals accounting for only 12 percent of GDP, a low figure by international standards, there is still room for Brazil to create jobs and expand the credit market.

Brazil did not drive this growth by creating a bloated welfare state. Bolsa Família, for example, assists 13 million families but takes up only 0.6 percent of GDP. It is true that spending on other welfare programs remains high; for example, Brazil devotes five percent of its GDP to pensions for civil servants. Sharma, however, fails to mention that Brazil recently established ceilings on those pensions. Although the new regulations will not affect the entitlements of current employees, they will apply to fresh recruits and eventually save the government billions of dollars.

Sharma offers a misleading assessment of several other sectors of the Brazilian economy. He underestimates the extent of Brazil's comparative advantages in agriculture, mining, and other natural resource sectors. He rightly criticizes the country's high interest rates, but when he describes those rates as a "signature" policy, he ignores the recent drive to reduce them. In fact, since last August, Brazil's central bank has reduced interest rates by more than three percent. Ironically, it has done so in the face of opposition from the constituency for which Sharma presumably has the most sympathy: local financial firms. Sharma also notes that Brazil's investment in infrastructure remains too low, but in that assessment, too, he neglects recent progress. In 2004, only 62 percent of Brazil's roads were in good or excellent condition; last year, according to Brazilian government figures, that number had risen to 73 percent. Since Brazil launched an accelerated growth plan in 2007, public spending on infrastructure has more than tripled. Sharma also ignores the fact that Brazil has made progress in attracting private investment to fund infrastructure projects; in February, for example, it privatized three of its airports.

In short, Sharma offers a simplistic and unduly pessimistic view of Brazil. The fact remains that throughout the financial crisis of the past several years, the country has outperformed the developed world. The social and economic changes of the last two decades and the dynamism of the internal market have not immunized Brazil against another global downturn, but they have made it resilient.

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Democracy Matters

LARRY ROHTER

In comparing Brazil to China, Ruchir Sharma calls for Brasília to follow Beijing's example of growth at any cost—a model that would cast the country backward into authoritarianism.

Since Brazil introduced the real in 1994, it has lifted roughly a quarter of its population out of extreme poverty and nurtured a growing class of middle-income consumers. Meanwhile, since the late 1970s, China has removed an equal proportion of its citizens from similar levels of poverty. But whereas China has grown under the direction of one-party rule, in which labor unions, an independent press, and autonomous civil society are repressed or forbidden, Brazil has done so amid the give-and-take of democracy. Whether by voting, joining unions, or speaking out through the free press, Brazilians have steered the direction of their country, whereas the Chinese people have had to accept the dictates of their government.

Brazilians have attempted to manage their country's rise by embracing governments that do not seek to fuel growth at the expense of human capital and in fact recognize that such capital is critical to continued prosperity. Since the mid-1990s, Brazilian leaders have spent billions improving the country's education, health care, and housing—not as handouts to the needy but as long-term investments in the manpower essential to the country's future. These efforts have also dramatically reduced inequality. Meanwhile, even as Sharma lauds China for "relentlessly" pursuing growth, he acknowledges that the country has built its success largely at the expense of its citizens. As inequality soars there, the Chinese people have little, if any, ability to resist it.

Indeed, in recognizing China's lack of concern for the welfare of its citizens, Sharma implicitly admits that GDP growth is not the only goal that a society should pursue. Brazilians value quality of life and individual freedom and are not prepared to sacrifice either so that local plutocrats or foreign companies that showed no interest in Brazil before the current boom and will leave at the first hint of a downturn or of cheaper labor and better markets elsewhere can eke out ever-greater profits.

Sharma is right to argue that Brazil faces many challenges. But it cannot confront these problems by following the Chinese model, which guarantees profit by imposing its policies and stifling

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dissent. Such a system may seem more efficient to some, but pursuing growth without regard for transparency or the rule of law will only return Brazil to the era of authoritarian cronyism that its people escaped just a quarter of a century ago. To continue growing, Brazil must serve not hedge funds, banks, and big businesses but the well-being of its citizens.

LARRY ROHTER *is the author of* Brazil on the Rise: The Story of a Country Transformed.

Educate and Innovate

RONALDO LEMOS

Ruchir Sharma suggests that to sustain its success, Brazil should devote more resources to infrastructure projects, education, and research and development. But he fails to mention that over the past several years, Brazil has attempted to do just that, launching a series of programs meant to boost industry and technical education. However noble, these initiatives have failed to address the structural reforms necessary to promote the innovation that the country desperately needs.

To begin with, this past April, Brazil announced a stimulus package of $35 billion to aid its industrial base. The legislation also eliminated billions of dollars in payroll taxes, created subsidies for lending, and promised to weaken the currency. Although these measures will certainly spur some growth, they are centralized, capital-intensive, and offer little in the way of research and development or technology, ultimately reinforcing the outdated industrial model in place since the mid-twentieth century. In particular, the package will do little to eliminate the so-called Brazil cost—the additional expense for goods in the country due to the lack of infrastructure, high taxes and interest rates, and a complicated bureaucracy. According to the World Bank, it takes an average of 119 days to start a new business in Brazil, the fifth-longest time in the world. And the country remains one of the most expensive in which to conduct business. For example, even after Foxconn came to Brazil to make products for Apple, the first batch of iPhones made in Brazil cost the same amount as imported phones.

The Brazilian government has also attempted to support industry and innovation in the long term, particularly by improving education. But those efforts have proved similarly inept. For instance, the Ministry of Education devotes $750,000 every two years to fund the best proposals for schoolbooks. This year's process required bidders to attach DVDs to their books, in the hopes that they would make the educational experience more interactive. Yet the ministry is also sending schools tablet computers, which cannot play DVDs.

Another example of this ineptitude is the Science Without Borders program, a $1.65 billion scholarship fund for Brazilian students to study science, technology, engineering, or mathematics in the United States and other countries. Yet when those students return home, they will have trouble putting their degrees to use, since Brazil does not recognize degrees obtained abroad. Students hoping to have their degrees recognized must endure a years-long validation process before taking doctorate-level jobs,

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defeating the very purpose of Science Without Borders.

This educational protectionism also extends to foreigners hoping to enter Brazilian academic institutions. At the University of São Paulo, the largest and most important university in the country, only 2.8 percent of the 56,000 students are foreign. And scholars who hope to enter the Brazilian university system have no formal mechanisms to aid their applications, forcing them to rely on local professors to help them obtain visas and work permits.

To truly advance innovation in industry and education, Brazil must experiment. Instead of retaining an outmoded manufacturing system, the country should embrace new models from around the world, such as the "maker movement," a do-it-yourself approach that encourages individuals to learn engineering-based crafts and empowers them to design new inventions through open-source collaboration and technologies such as 3-D printing.

The country should apply the same kind of courage to explore new ideas with regard to education. It should begin by accepting foreign degrees and opening its educational system to students and professors from abroad, which would alleviate the shortage of qualified professionals in the country and add to its talent base. Having done that, Brazil can support new industrial pursuits by creating a national innovation institution to serve as a laboratory of ideas and as a nexus among individuals, businesses, universities, and the government. And it can promote innovation in elementary and high schools, teaching students the programming languages and basic skills necessary to design everything from Web sites to widgets.

Cutting payroll taxes and subsidizing tablets will certainly help Brazil prevent itself from falling behind for now. But the country will continue to prosper only if it embraces innovation and takes the risks necessary to apply it.

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Sharma Replies

Each of the four responses to my article addresses the same question: whether Brazil can keep growing after commodity sales slow. Shannon O'Neil and Richard Lapper admit that the country faces many problems, but they argue that it has achieved a level of stability over the past two decades that will at least cushion it from a commodities downturn, if not allow it to continue to prosper.

Yet Brazil's growth remains slow. It is true, as O'Neil notes, that economies should be measured against others with similar levels of per capita income. Brazil's long-term growth rate of 2.5 percent and its recent boom pace of four percent, however, are sluggish by any measure—lagging behind the rates of poorer countries, such as China and India, as well as those of fellow middle-income countries, such as Russia and Turkey. As Lapper notes, Brazil has outperformed the developed world throughout the financial shocks of the past several years. Yet that record is no sign of success. As a rising

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country, Brazil should grow faster than wealthier nations, but its economy is now expanding at about the same speed as that of the United States, and it remains behind those of other emerging markets. That is all the case because Brazil continues to depend on commodities: since the 1980s, the country has exceeded its average growth rate of 2.5 percent only when prices for its commodity exports have spiked.

In my article, I illustrate the effects of that reliance on commodities by contrasting Brazil with China. O'Neil and Larry Rohter accuse me of overlooking the economic and political differences between the two countries and arguing that Brazil would have gained from following China's example. But China is a foil to Brazil, not a model. Through heavy investment and a cheap currency, China has created a high-growth and low-cost economy that rose quickly but now faces dangerous imbalances as a result. Brazil's record of weak investment and high interest rates has created the opposite: a slow-growth and high-cost economy that now faces imbalances not from speed but from sclerosis. China has grown at an extremely rapid pace, even for its income class, whereas Brazil has fallen behind its peers.

I do not, as Rohter suggests, make this comparison as a way of endorsing China's authoritarian model. In fact, when it comes to growth, systems matter less for economic growth than individual leaders who understand the basics of economic reform. Of the 124 economies of the last three decades that grew at five percent or better for at least ten years, 52 percent were democracies and 48 percent were dictatorships.

Brazil's leaders, unfortunately, have not demonstrated that they understand economic reform. O'Neil and Lapper note various examples of progress, such as job creation, educational improvements, a growing middle class, and investments in infrastructure. But as Ronaldo Lemos notes, Brazil's recent reforms have done little to lower the so-called Brazil cost of doing business, making it difficult for companies to prosper. And the 2011–12 *Global Competitiveness Report* ranked Brazil 104th worldwide in quality of infrastructure, placing it far behind middle-income peers such as Chile (32nd), Turkey (34th), and Mexico (73rd).

What is more, these developments, however beneficial, have bloated the Brazilian government. Since the 1980s, it has doubled its share of the economy, to 40 percent, one of the highest levels in the emerging world. The steady growth of Bolsa Família is just one example of this creeping statism. The problem is not that Bolsa Família is one of the largest initiatives of its kind in the world; it is that the program is just one piece of a growing welfare state. Brazil has seen costs soar across the board, from pensions to social security, which now accounts for nearly seven percent of GDP.

The rise of the welfare state is crowding out private investment, which remains stagnant at under 20 percent. And my critics fail to address my resulting argument: that weak private investment is the main reason costs are so high and capacity is so low, capping Brazil's growth potential.

O'Neil is right to say that Brazil's hard-fought stability is an achievement, particularly given its history of traumatic hyperinflation. But Brazil is hardly alone in having reined in its public debt; over the past decade, Russia and Turkey have done much the same. Although stability came as a relief, it has not given Brazil any kind of competitive advantage. And there are increasing signs that it is beginning to falter. In a failing effort to maintain its four percent growth, Brazil has been extending vast amounts of credit. In the last five years, credit provided to the private sector, including both individuals and businesses, has doubled as a share of GDP, to 49 percent. A credit expansion this rapid almost always leads to a rise in bad loans and reduces the willingness of banks to lend—which is happening already for car loans.

The root of these problems is Brazil's dependence on the commodity boom. The country has experienced little increase in export volume, meaning that its increasing export revenues are coming largely from the rise in commodity prices. Although Brazil has been able to grow without developing a competitive industrial base, it remains one of the most closed nations among the emerging markets, and the fall of commodity prices, which is already under way, will leave it exposed. As O'Neil and Lapper point out, Brazil does have a rapidly expanding middle class. But the spending of that class is fueled by high commodity prices, and its contribution to Brazil's growth will likely shrink as commodity prices decline. And although inequality may have fallen, by international standards, it remains high, higher even than in China. This imbalance has bred class tensions: there is a reason why Brazil is one of the best places in the world to sell armored cars.

Long-term economic success depends on growth that is balanced across classes, regions, and industries, not biased toward the rich. Commodity bubbles produce exactly the opposite: high prices for staple goods harm the poorest members of society while building the fortunes of billionaires. The elite makes its money essentially by digging materials out of the ground, rather than by creating new services or companies that will continue to grow once the commodity boom passes. That is the bubble from which Brazil has benefited, and now it needs to get beyond it.

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Response

Measuring the Mafia-State Menace

Are Government-Backed Gangs a Grave New Threat?

Old Whine, New Bottles

PETER ANDREAS

According to Moisés Naím's essay "Mafia States" (May/June 2012), the world now faces a grave "new threat": governments that have been taken over by organized crime. These "mafia states" are so dangerous, Naím argues, that they are no longer merely a law enforcement challenge but a full-blown national security threat.

There is just one problem with this scary picture: it is hardly new. For every eye-popping contemporary example that Naím gives of a criminal organization linked to a state, there are many more equally striking parallels from the past. The state and organized crime have never been as separate as Naím seems to imagine they once were.

Consider the Balkans. Naím labels tiny Montenegro, a cigarette-smuggling hub, a mafia state, and points to Kosovar Prime Minister Hashim Thaçi's alleged complicity in the heroin trade. Smuggling is indeed a lifeblood of some Balkan economies today. But it pales in comparison to the large-scale organized crime sponsored by Serbian President Slobodan Milosevic's regime in the 1990s, when Serbian customs agents evaded UN sanctions and facilitated all sorts of smuggling.

Or look at Latin America. Naím points to the current Venezuelan government's alleged high-level military links to drug trafficking. But Venezuela under Hugo Chávez is no more a mafia state than some of the region's corrupt regimes of the past. Manuel Noriega's dictatorship in Panama allowed Colombian cocaine and dirty money to flow freely through the country until he was overthrown by the United States in 1989. In Bolivia, General Luis García Meza had such close ties to drug traffickers that his 1980 takeover was dubbed "the cocaine coup." In the 1940s and 1950s, Cuba under Fulgencio Batista offered a welcome mat for some of the United States' leading organized crime figures. In many places, from Latin America to Southeast Asia, the Cold War created a tolerant climate for states to back criminal enterprises—links that were often overlooked for geopolitical convenience.

Going back earlier in the twentieth century, one has to wonder if Naím would classify Prohibition-era America as a mafia state, considering that entire police departments were bought off and bootleggers delivered booze directly to Congress. Canada, too, might earn Naím's designation. The Canadian government at the time granted licenses to bootleggers in Windsor, Ontario, to store alcohol right on the banks of the Detroit River, and Canadian customs officials routinely signed off on paperwork falsely indicating that the goods were not destined for the United States.

The British authorities in the Bahamas also operated a mafia state of sorts during Prohibition, letting their territory become a transshipment point for rumrunners. (Officials reprised the role in the 1970s and 1980s, when they allowed the Colombian drug kingpin Carlos Lehder to turn a Bahamian island into his own private airstrip for U.S.-bound cocaine shipments.)

Examples of countries that would qualify as mafia states under Naím's definition extend even further back in history, undermining the ostensibly "unprecedented" nature of the phenomenon even more. In the nineteenth century, the United Kingdom oversaw the flood of opium smuggled into China; the British East India Company, which shipped the opium, had far more power than any of today's so-called drug cartels could ever dream of.

FUZZY LOGIC

To match the supposed newness of the threat he describes, Naím resorts to newfangled language. But the very term "mafia states" is flawed, misleading, and applied so erratically as to become nearly meaningless. After all, the word "mafia," with origins in nineteenth-century Italy, has now been so used and abused in popularized descriptions of organized criminal activity that it has lost much of its analytic value. As Giovanni Falcone, an Italian judge who was killed by the original Mafia in 1992, cautioned, "I am no longer willing to accept the habit of speaking of the Mafia in descriptive and all-inclusive terms that make it possible to stack up phenomena that are indeed related to the field of organized crime but that have little or nothing in common with the Mafia." Naím compounds the problem further by coining a catchy but frustratingly fuzzy new term.

Strangely, Naím never even mentions Italy, despite the long and intimate relationship between government authorities and organized crime in the country. But were Naím to have included Italy on his list of mafia states, he would have undermined his own argument about how new the threat is. Naím is also silent about Japan, where the nexus between politics and the Yakuza criminal syndicate is deeply entrenched. One suspects that is because, as in Italy, the story there is an old one and does not sit well with Naím's alarmism.

Some of the examples Naím does offer actually weaken his argument. For instance, he points out that "a succession of generals who held the chief antidrug post in Mexico are now in prison for taking part in the very kind of crime they were supposed to prevent." Naím is correct that the Mexican government has a drug-corruption problem (although that is hardly a new phenomenon). But if Mexico were actually a mafia state, then these generals would presumably be not in prison but running the drug trade.

In fact, Mexico was more of a mafia state a quarter of a century ago than it is today. During the last decades of the twentieth century, when the Institutional Revolutionary Party, or PRI, was still in power and the political system had yet to open up, the Mexican state managed the drug trade in a more top-down fashion, allowing it to keep the various players in check and drug-related violence to a minimum. Compare this to the era of Felipe Calderón and his antidrug crackdown. Since 2006, some 50,000 people have died in the drug wars. Were Mexico a true mafia state, it would wield more monopolistic control over the drug trade, and the resulting stability and lack of competition would translate into far less violence.

HYPING THE THREAT

Naím's historical amnesia and misleading terminology combine to produce excessive panic. Naím even raises "the alarming prospect of nuclear mafia states," warning that "as criminal organizations fuse more thoroughly with governments, deterrence might become more difficult." But he fails to explain how nuclear deterrence will break down and gives no explanation for why a criminalized state would value its survival any less than a noncriminalized one. Nuclear retaliation would not be good for business.

For all of Naím's warnings about criminal gangs turning to for-profit nuclear smuggling, such activity is in fact strikingly rare. After all, nothing attracts unwanted attention from the United States and other major powers more than black marketeering in nuclear material; indeed, illicit buyers often turn out to be undercover agents staging sting operations. Criminal enterprise is first and foremost about making money, and there are far easier and less risky ways to do so than by moving fissile material.

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Ratcheting up his rhetoric still further, Naím claims that "the scale and scope of the most powerful criminal organizations now easily match those of the world's largest multinational corporations." This is pure hyperbole, and he offers zero evidence to suggest otherwise. No criminal group comes remotely close to ExxonMobil or Apple in size or power.

In fact, illicit business would in some ways be easier to dismantle if it were controlled by such large, monolithic, and identifiable criminal organizations. Illegal cross-border commercial activities, ranging from drug trafficking to human smuggling, are hard to put out of business precisely because they are so diffuse and loosely organized. Cracking down on them may therefore be even harder than Naím suggests. But the nature and difficulty of the challenge is not fundamentally new.

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Naím Replies

Peter Andreas' disagreement with me boils down to two points: that organized crime colluding with governments is not a new phenomenon and that this is not as big a threat as I portray it. He is wrong on both counts.

Contrary to Andreas' assertions, there is overwhelming evidence that the globalization of illicit markets has increased their size substantially and diversified the kinds of goods traded in them. The enormous and fast-growing illicit markets in counterfeit products, industrial waste, and human organs are just some of the obvious examples with no historical precedent. New technologies, moreover, have transformed old crimes. Money laundering, for example, has always existed, but given today's electronic money-transferring systems and integrated financial markets, it is hard to argue that modern money laundering is not that different from what it once was.

In my article, I make clear that "criminals, smugglers, and black markets have always existed" and that the collusion of governments and criminals is not a new phenomenon, either. But extending that observation to argue that nothing has changed flies in the face of available evidence and basic logic. Applying Andreas' reasoning to other areas, one could say that rising global inequality in the past decade is of no concern because, after all, there has always been a gap between the rich and the poor.

To back up his claim that states today are just as criminalized as they were in the past, Andreas points to Cuba in the 1940s and 1950s, Bolivia in the 1980s, and Serbia in the 1990s. "The nature and difficulty of the challenge is not fundamentally new," he writes. To believe that, however, one would also need to believe that not much else has changed in the world in recent decades. In fact, since the late 1980s, businesses, terrorists, charities, aid organizations, media, political activists, churches, and many other groups have taken advantage of globalization to expand their influence. If Andreas is to be believed, organized crime would be the only exception—a bold assumption he apparently feels no need to explain.

Given the volume, international scope, financial implications, and extraordinarily complex logistical requirements of today's illicit markets, it is illogical to assume that governments are not more deeply involved in these criminal activities than ever before. What is more, some of these governments are not merely accomplices but the actual leaders of criminal enterprises.

Andreas is not ready to acknowledge this new reality. For him, the challenge posed today by Hugo Chávez's Venezuela, for example, is analytically indistinguishable from that posed by the weak government of Bolivia's Luis García Meza, a regime that barely lasted a full year. Venezuela today is one of the world's top oil exporters, and its government includes known drug traffickers and has close alliances with the FARC (Revolutionary Armed Forces of Colombia), Cuba, Iran, and Belarus. It is absurd to place the country in the same category as Bolivia in 1980, an impoverished and isolated state run by a feeble military junta whose main illicit activity was selling basic coca paste.

Eastern Europe's natural gas sales offer another example that belies Andreas' argument. As diplomatic cables released by the whistleblower Web site WikiLeaks reveal, U.S. officials believe that Dmytro Firtash, the Ukrainian co-owner of the gas company RosUkrEnergo, has close ties to the Russian mafia. The sheer magnitude and geopolitical importance of this market and the role criminalized governments play in it are impossible to dismiss as more of the same.

Andreas also accuses me of hyping the threat that nuclear weapons could fall into the hands of criminal networks. He correctly argues that this is risky business, writing, "Criminal enterprise is first and foremost about making money, and there are far easier and less risky ways to do so than by moving fissile material." But just because an activity is dangerous does not mean that criminals will never engage in it. From Andreas' perspective, A. Q. Khan and the illicit international network he built—in close concert with the Pakistani government and others—should never have existed. But it did, and it became the most important source of nuclear proliferation in recent times. The probability that criminals will acquire nuclear weapons may be small, but the consequences are too catastrophic for one to dismiss the threat as cavalierly as Andreas does. That is the most worrisome aspect of Andreas' response: the complacency his arguments might encourage.

Andreas is also bothered by my use of the term "mafia states." That is his right. But it is not his right to accuse me of arguing that the criminal groups I analyze are "monolithic" and "identifiable." I don't believe that, and I didn't write that in my essay. In fact, as my book *Illicit* documents, modern, large-scale criminal enterprises are loosely organized, and their alliances and arrangements are ever shifting. Indeed, it is criminal networks' constantly evolving nature, and their close association with states, that makes the threat so potent and so deserving of attention.

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Letters to the Editor

Jud Nirenberg on animal welfare, S. J. Deitchman on the Vietnam War, and Jamie Jones on the new space race

SAVE THE CHIMPS

To the Editor:

Miyun Park and Peter Singer's recent essay ("The Globalization of Animal Welfare," March/April 2012) focuses entirely on domesticated animals and thus makes an easily forgivable mistake. The essayists claim that "of the mammals eaten by humans, pigs . . . may be the most intelligent."

Which animals are commonly eaten depends on where one lives. In central and western Africa, there is an animal more intelligent than the pig and at far greater risk of extinction from human consumption: our closest relative, the chimpanzee. Offering its consumers more sustainable and more ethical ways to meet their protein needs is a key challenge in protecting our intelligent cousin and the biodiversity of the ecosystems in which it lives.

JUD NIRENBERG
Jane Goodall Institute

WHEN MILITARY ADVISERS FAIL

To the Editor:

In their article "War Downsized" (March/April 2012), Carter Malkasian and J. Kael Weston point to the United States' "long and successful history of deploying advisers to fight insurgencies abroad." They mention effective operations in the Philippines, El Salvador, and Colombia and suggest that such a strategy be emulated in Afghanistan.

But the authors conspicuously do not mention Vietnam. The war there started out as a counterinsurgency campaign fought by the government of South Vietnam in tandem with U.S. advisers. But it turned into a major war from which the United States ultimately retreated in ignominy.

Since I spent ten years with that war in one capacity or another, I can attest that it hinged on the number of casualties each side was willing to sustain. The Tonkinese in North Vietnam were willing to fight to the last man and woman to rebuild their old empire, which included central Vietnam and Cochin China in the South, whereas the United States was not willing to sustain the growing number of casualties the war was exacting.

The United States was simply lucky in the cases offered by Malkasian and Weston that the other side did not have the resources to oppose the American advisers. Their examples appear to have been chosen selectively to support an

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argument based on wishful thinking rather than all the available data.

S. J. DEITCHMAN
Chevy Chase, Maryland

PIE IN THE SKY

To the Editor:

Neil deGrasse Tyson's attempt ("The Case for Space," March/April 2012) to revive the bellicose spirit of the 1960s in order to foster a U.S. space race with China brings to mind General "Buck" Turgidson's remarks about "a mineshaft gap" in *Dr. Strangelove*. If one were tempted to think that the director Stanley Kubrick's dark satire was dated, doubt no more.

The analogy to the 1960s is inappropriate given the current mood of the country. Although there are doubtless many possible spinoffs from future space technology, a cost-benefit analysis might suggest that other, more targeted expenditures, such as in energy and education, would better suit the country's current needs.

Furthermore, it is useful to note that the U.S. national debt was just under $300 billion in 1961; today, it is more than $15 trillion. Ironically, a space race with China would require the United States to borrow from the same country with which it would be competing.

JAMIE N. JONES
Ocala, Florida

FOR THE RECORD

The article "NATO's Victory in Libya" (March/April 2012) incorrectly stated that the United States was the first country to freeze the assets of the former Libyan leader Muammar al-Qaddafi. In fact, Switzerland did so first.

In "The First Global Man," (May/June 2012), tobacco is referred to as an Old World crop, when it in fact originated in the Americas.

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