MAKING AMERICA GREAT AGAIN

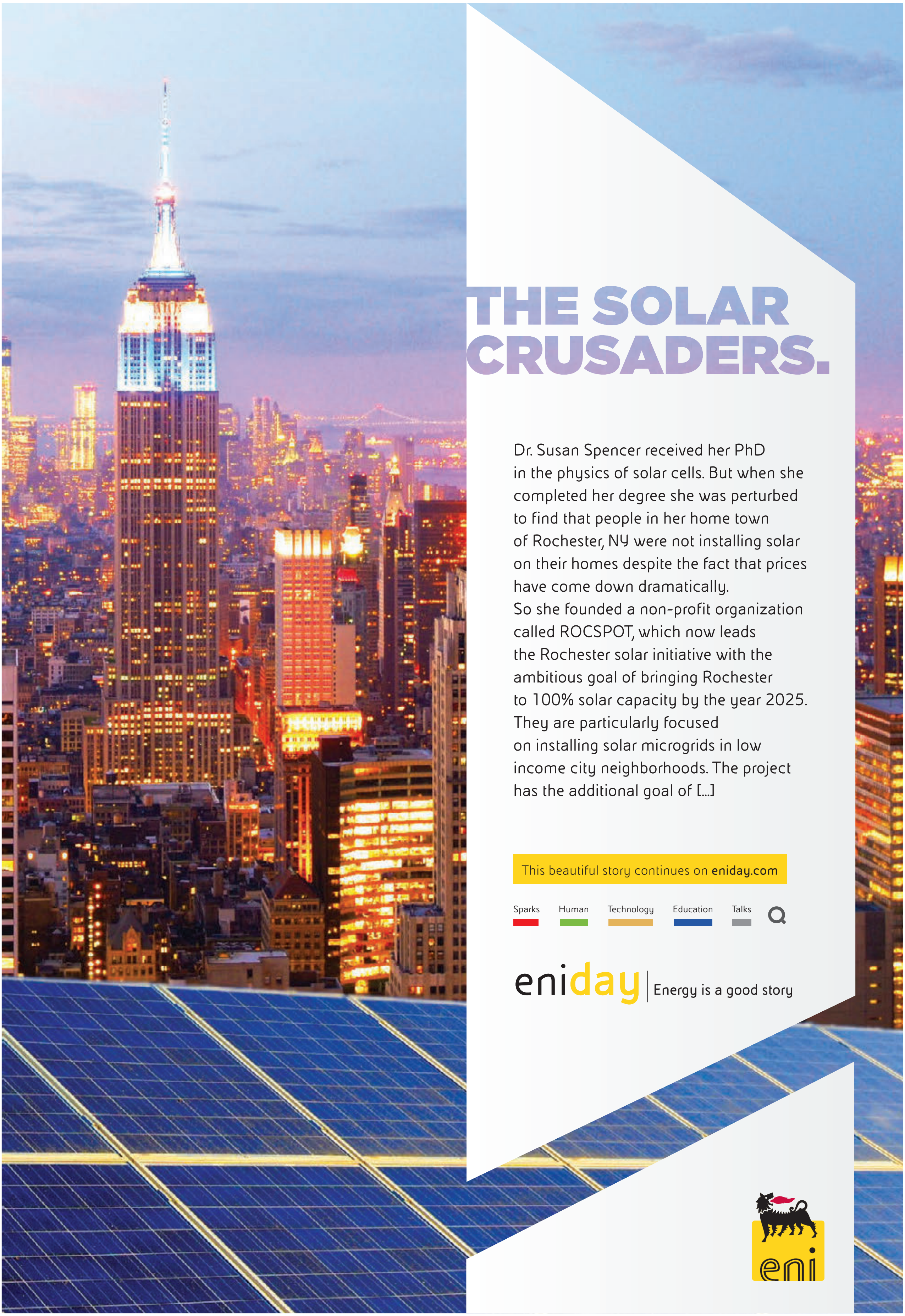
FOREIGN AFFAIRS

MAY/JUNE 2016

Putin's Russia
Down But Not Out

FOREIGNAFFAIRS.COM

FOREIGN AFFAIRS
MAY/JUNE 2016 • VOLUME 95 • NUMBER 3 • PUTIN'S RUSSIA


THE SOLAR CRUSADERS.
Dr. Susan Spencer received her PhD in the physics of solar cells. But when she completed her degree she was perturbed to find that people in her home town of Rochester, NY were not installing solar on their homes despite the fact that prices have come down dramatically.
So she founded a non-profit organization called ROCSPOT, which now leads the Rochester solar initiative with the ambitious goal of bringing Rochester to 100% solar capacity by the year 2025.
They are particularly focused on installing solar microgrids in low income city neighborhoods. The project has the additional goal of [...]
This beautiful story continues on eniday.com
Sparks
Human
Technology
Education
Talks
eniday
Energy is a good story
eni

FOREIGN AFFAIRS

Volume 95, Number 3

PUTIN'S RUSSIA

COVER: RICARDO MARTÍNEZ ORTEGA

May/June 2016

ESSAYS

ON FOREIGNAFFAIRS.COM

▶ **Amanda Rothschild** on ISIS and genocide.

▶ **Susan Cheever** on alcohol in U.S. history.

▶ **Milan Vaishnav** on Modinomics at two.

The PhD in Global Leadership and Change

Designed for the working professional, this new program aims to develop leaders who want to create innovative directions in strategy and policy. Graduates go on to create new directions in strategy and policy in NGOs, think tanks, higher education, health care, military leadership, federal and state government, and other organizations.

PEPPERDINE
Graduate School of
Education and Psychology

To get started, get in touch today.
310.568.5600 or 866.503.5467
gsep-recruitment@pepperdine.edu • gsep.pepperdine.edu

REVIEWS & RESPONSES

"Foreign Affairs . . . *will tolerate wide differences of opinion. Its articles will not represent any consensus of beliefs. What is demanded of them is that they shall be competent and well informed, representing honest opinions seriously held and convincingly expressed. . . . It does not accept responsibility for the views in any articles, signed or unsigned, which appear in its pages. What it does accept is the responsibility for giving them a chance to appear."*

Archibald Cary Coolidge, Founding Editor
Volume 1, Number 1 • September 1922

FOREIGN AFFAIRS

May/June 2016 · Volume 95, Number 3

Published by the Council on Foreign Relations

SUBSCRIPTION SERVICES:
ForeignAffairs.com/services
TELEPHONE:
800-829-5539 U.S./Canada
813-910-3608 All other countries
EMAIL: service@ForeignAffairs.customersvc.com
MAIL: P.O. Box 60001, Tampa, FL, 33662-0001

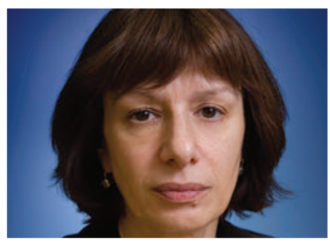
Foreign Affairs
58 E. 68th Street, New York, NY 10065
ADVERTISING: Call Edward Walsh at 212-434-9527 or visit www.foreignaffairs.com/advertising
WEB SITE: ForeignAffairs.com
NEWSLETTER: ForeignAffairs.com/newsletters
VIDEO: ForeignAffairs.com/video
FACEBOOK: Facebook.com/ForeignAffairs

Foreign Affairs is a member of the Alliance for Audited Media and the Association of Magazine Media.
GST Number 127686483RT
Canada Post Customer #4015177 Publication #40035310

CONTRIBUTORS

In 1982, **GLEB PAVLOVSKY** was arrested by Soviet authorities for distributing dissident literature and spent several years in internal exile. After the collapse of the Soviet Union, he became one of Russia's premier political consultants, advising all three post-Soviet presidents before parting ways with Vladimir Putin in 2011. Now a prominent Kremlin critic and president of the Russia Institute and the Foundation for Effective Politics, Pavlovsky offers an insider's view of the Russian state in "Russian Politics Under Putin" (page 10).

Over the past decade, the economist **SERGEI GURIEV** has worked at the center of Russian academic and political life—as the rector of Moscow's New Economic School, an economic adviser to Dmitry Medvedev, and a member of the board of Sberbank, Russia's largest bank. In 2013, under pressure from the Putin government, Guriev left Russia for Paris, where he is now a professor of economics at Sciences Po. In "Russia's Constrained Economy" (page 18), he argues that only major structural reforms can unlock the country's potential for growth.



During Russian President Vladimir Putin's early years in power, **MARIA LIPMAN** experienced his regime's crackdown on its opponents firsthand, when, in 2001, allies of the government seized control of *Itogi*, the newsweekly she had co-founded, and fired the whole staff. Since then, she has written for *The Washington Post* and *The New Yorker*, and she now serves as editor in chief of *Counterpoint*, a journal published by George Washington University's Institute for European, Russian, and Eurasian Studies. In "How Putin Silences Dissent" (page 38), Lipman examines how the Kremlin's political suppression works in practice.

JACOB LEW began his political career at age 12, canvassing for the antiwar Democratic presidential candidate Eugene McCarthy in 1968, and at 18, he became an aide to U.S. Congresswoman Bella Abzug. Having served as director of the Office of Management and Budget twice (under both Bill Clinton and Barack Obama) and White House chief of staff (under Obama), Lew took his current position as U.S. treasury secretary in 2013. In "America and the Global Economy" (page 56), he explains why U.S. global economic leadership has never been more important.

PUTIN'S RUSSIA

Over the past decade and a half, Vladimir Putin's Russia has been an economic dynamo and a basket case, an imperfect democracy and a tightening tyranny, a constructive diplomatic actor and a serial military aggressor—sometimes all at once. The only constant has been surprise, as the zigging and zagging has left outside observers, and even many Russians, scratching their heads.

We asked several of the world's leading Russia experts to take stock of the country under Putin, analyzing where things are and where they're going. The result is a sharp portrait of a wounded but still powerful bear—a country strong enough to demand attention and respect, yet too weak to impose its will on the world; proud of its history and traditions, yet too insecure to tolerate free political activity; rich enough to spend vast sums on pet projects, yet too corrupt and constrained to prosper.

Stephen Kotkin kicks the package off with a whirlwind tour of Russian history, showing how today's anti-Western resentment, centralized power, and sense of special destiny represent not aberrations but a return to the centuries-old norm.

Gleb Pavlovsky, a former Kremlin insider, explains how politics works under Putin, highlighting the role of *sistema*, Russia's deep state, in driving all major outcomes. Sergei Guriev and Dmitri Trenin assess Russia's economy and military, respectively, concluding that the latter is doing much better than the former.

Fyodor Lukyanov puts Putin's foreign policy in the context of the post–Cold War era, and Maria Lipman traces how the Kremlin maintains control by cracking down on dissent. Finally, Daniel Treisman provides an authoritative account of Putin's decision to invade Crimea, arguing that it was less a response to Western moves or a deliberate act of imperial revanchism than the impulsive gamble of a leader worried about losing a key military base.

Together, these articles suggest pessimism about the future of Putin's regime, which has glaring structural weaknesses and limited prospects for advancement. But they also suggest that it does not pose a major imminent threat to world peace and stability. The current chapter of Russia's story is unlikely to end well, yet external pressure or provocation seems likely to inflame the situation rather than improve it. Dealing with such a challenge successfully will require a careful hand and a combination of firmness, prudence, and patience.

—*Gideon Rose, Editor*

RICARDO MARTÍNEZ ORTEGA

Return to Table of Contents

PUTIN'S RUSSIA

Russia's Perpetual Geopolitics

Putin Returns to the Historical Pattern

Stephen Kotkin

For half a millennium, Russian foreign policy has been characterized by soaring ambitions that have exceeded the country's capabilities. Beginning with the reign of Ivan the Terrible in the sixteenth century, Russia managed to expand at an average rate of 50 square miles per day for hundreds of years, eventually covering one-sixth of the earth's landmass. By 1900, it was the world's fourth- or fifth-largest industrial power and the largest agricultural producer in Europe. But its per capita GDP reached only 20 percent of the United Kingdom's and 40 percent of Germany's. Imperial Russia's average life span at birth was just 30 years—higher than British India's (23) but the same as Qing China's and far below the United Kingdom's (52), Japan's (51), and Germany's (49). Russian literacy in the early twentieth century remained below 33 percent—lower than that of Great Britain in the eighteenth century. These comparisons were all well known by the Russian political establishment, because its members traveled to Europe frequently and measured their country against the world's leaders (something that is true today, as well).

STEPHEN KOTKIN is Professor of History and International Affairs at Princeton University and a Fellow at the Hoover Institution at Stanford University.

History records three fleeting moments of remarkable Russian ascendancy: Peter the Great's victory over Charles XII and a declining Sweden in the early 1700s, which implanted Russian power on the Baltic Sea and in Europe; Alexander I's victory over a wildly overstretched Napoleon in the second decade of the nineteenth century, which brought Russia to Paris as an arbiter of great-power affairs; and Stalin's victory over the maniacal gambler Adolf Hitler in the 1940s, which gained Russia Berlin, a satellite empire in Eastern Europe, and a central role shaping the global postwar order.

These high-water marks aside, however, Russia has almost always been a relatively weak great power. It lost the Crimean War of 1853–56, a defeat that ended the post-Napoleonic glow and forced a belated emancipation of the serfs. It lost the Russo-Japanese War of 1904–5, the first defeat of a European country by an Asian one in the modern era. It lost World War I, a defeat that caused the collapse of the imperial regime. And it lost the Cold War, a defeat that helped cause the collapse of the imperial regime's Soviet successor.

Throughout, the country has been haunted by its relative backwardness, particularly in the military and industrial spheres. This has led to repeated frenzies of government activity designed to help the country catch up, with a familiar cycle of coercive state-led industrial growth followed by stagnation. Most analysts had assumed that this pattern had ended for good in the 1990s, with the abandonment of Marxism-Leninism and the arrival of competitive elections and a buccaneer capitalist economy. But the impetus behind Russian grand strategy had not changed. And over the last decade, Russian President Vladimir Putin has returned to the trend of relying on the state to manage the gulf between Russia and the more powerful West.

With the breakup of the Soviet Union in 1991, Moscow lost some two million square miles of sovereign territory—more than the equivalent of the entire European Union (1.7 million square miles) or India (1.3 million). Russia forfeited the share of Germany it had conquered in World War II and its other satellites in Eastern Europe—all of which are now inside the Western military alliance, along with some advanced former regions of the Soviet Union, such as the Baltic states. Other former Soviet possessions, such as Azerbaijan, Georgia, and Ukraine, cooperate closely with the West on security matters. Notwithstanding the forcible annexation of Crimea, the war in eastern Ukraine, and the de facto occupation of Abkhazia and South Ossetia, Russia has had to retreat from most of Catherine the Great's so-called New Russia, in the southern steppes, and from Transcaucasia. And apart from a few military bases, Russia is out of Central Asia, too.

Russia is still the largest country in the world, but it is much smaller than it was, and the extent of a country's territory matters less for great-power status these days than economic dynamism and human capital—spheres in which Russia has also declined. Russian dollar-denominated GDP peaked in 2013 at slightly more than $2 trillion and has now dropped to about $1.2 trillion thanks to cratering oil prices and ruble exchange rates. To be sure, the contraction measured in purchasing power parity has been far less dramatic. But in comparative dollar-denominated terms, Russia's economy amounts to a mere 1.5 percent of global GDP and is just one-15th the size of the U.S. economy. Russia also suffers the dubious distinction of being the most corrupt developed country in the world, and its resource-extracting, rent-seeking economic system has reached a dead end.

The geopolitical environment, meanwhile, has become only more challenging over time, with continuing U.S. global supremacy and the dramatic rise of China. And the spread of radical political Islam poses concerns, as about 15 percent of Russia's 142 million citizens are Muslim and some of the country's predominantly Muslim regions are seething with unrest and lawlessness. For Russian elites who assume that their country's status and even survival depend on matching the West, the limits of the current course should be evident.

THE BEAR'S NECESSITIES

Russians have always had an abiding sense of living in a providential country with a special mission—an attitude often traced to Byzantium, which Russia claims as an inheritance. In truth, most great powers have exhibited similar feelings. Both China and the United States have claimed a heavenly mandated exceptionalism, as did England and France throughout much of their histories. Germany and Japan had their exceptionalism bombed out of them. Russia's is remarkably resilient. It has been expressed differently over time—the Third Rome, the pan-Slavic kingdom, the world headquarters of the Communist International. Today's version involves Eurasianism, a movement launched among Russian émigrés in 1921 that imagined Russia as neither European nor Asian but a sui generis fusion.

The sense of having a special mission has contributed to Russia's paucity of formal alliances and reluctance to join international bodies except as an exceptional or dominant member. It furnishes Russia's people and leaders with pride, but it also fuels resentment toward the West for supposedly underappreciating Russia's uniqueness and importance. Thus is psychological alienation added to the institutional divergence driven by relative economic backwardness. As a result, Russian governments have generally oscillated between seeking closer ties with the West and recoiling in fury at perceived slights, with neither tendency able to prevail permanently.

Yet another factor that has shaped Russia's role in the world has been the country's unique geography. It has no natural borders, except the Pacific Ocean and the Arctic Ocean (the latter of which is now becoming a contested space, too). Buffeted throughout its history by often turbulent developments in East Asia, Europe, and the Middle East, Russia has felt perennially vulnerable and has often displayed a kind of defensive aggressiveness. Whatever the original causes behind early Russian expansionism—much of which was unplanned—many in the country's political class came to believe over time that only further expansion could secure the earlier acquisitions. Russian security has thus traditionally been partly predicated on moving outward, in the name of preempting external attack.

Today, too, smaller countries on Russia's borders are viewed less as potential friends than as potential beachheads for enemies. In fact, this sentiment was strengthened by the Soviet collapse. Unlike Stalin, Putin does not recognize the existence of a Ukrainian nation separate from a Russian one. But like Stalin, he views all nominally independent borderland states, now including Ukraine, as weapons in the hands of Western powers intent on wielding them against Russia.

A final driver of Russian foreign policy has been the country's perennial quest for a strong state. In a dangerous world with few natural defenses, the thinking runs, the only guarantor of Russia's security is a powerful state willing and able to act aggressively in its own interests. A strong state has also been seen as the guarantor of domestic order, and the result has been a trend captured in the nineteenth-century historian Vasily Klyuchevsky's one-line summation of a millennium of Russian history: "The state grew fat, but the people grew lean."

Paradoxically, however, the efforts to build a strong state have invariably led to subverted institutions and personalistic rule. Peter the Great, the original strong-state builder, emasculated individual initiative, exacerbated inbred distrust among officials, and fortified patron-client tendencies. His coercive modernization brought indispensable new industries, but his project for a strengthened state actually entrenched personal whim. This syndrome characterized the reigns of successive Romanov autocrats and those of Lenin and, especially, Stalin, and it has persisted to this day. Unbridled personalism tends to render decision-making on Russian grand strategy opaque and potentially capricious, for it ends up conflating state interests with the political fortunes of one person.

Follow the leader: Peter the Great *by Hippolyte (Paul) Delaroche, 1838*

MUST THE PAST BE PROLOGUE?

Anti-Western resentment and Russian patriotism appear particularly pronounced in Putin's personality and life experiences, but a different Russian government not run by former KGB types would still be confronted with the challenge of weakness vis-à-vis the West and the desire for a special role in the world. Russia's foreign policy orientation, in other words, is as much a condition as a choice. But if Russian elites could somehow redefine their sense of exceptionalism and put aside their unwinnable competition with the West, they could set their country on a less costly, more promising course.

Superficially, this appeared to be what was happening during the 1990s, before Putin took the helm, and in Russia a powerful "stab in the back" story has taken shape about how it was an arrogant West that spurned Russian overtures over the last couple of decades rather than the reverse. But such a view downplays the dynamic inside Russia. Certainly, Washington exploited Russia's enfeeblement during the tenure of Russian President Boris Yeltsin and beyond. But it is not necessary to have supported every aspect of Western policy in recent decades to see Putin's evolving stance less as a reaction to external moves than as the latest example of a deep, recurring pattern driven by internal factors. What precluded post-Soviet Russia from joining Europe as just another country or forming an (inevitably) unequal partnership with the United States was the country's abiding great-power pride and sense of special mission. Until Russia brings its aspirations into line with its actual capabilities, it cannot become a "normal" country, no matter what the rise in its per capita GDP or other quantitative indicators is.

Let's be clear: Russia is a remarkable civilization of tremendous depth. It is not the only former absolute monarchy that has had trouble attaining political stability or that retains a statist bent (think of France, for example). And Russia is right in thinking that the post–Cold War settlement was unbalanced, even unfair. But that was not because of any intentional humiliation or betrayal. It was the inevitable result of the West's decisive victory in the contest with the Soviet Union. In a multidimensional global rivalry—political, economic, cultural, technological, and military—the Soviet Union lost across the board. Mikhail Gorbachev's Kremlin chose to bow out gracefully rather than pull the world down along with it, but that extraordinarily benevolent endgame did not change the nature of the outcome or its causes—something that post-Soviet Russia has never really accepted.

The outside world cannot force such a psychological recognition, what the Germans call *Vergangenheitsbewältigung*—"coming to terms with the past." But there is no reason it could not come about organically, among Russians themselves. Eventually, the country could try to follow something like the trajectory of France, which retains a lingering sense of exceptionalism yet has made peace with its loss of its external empire and its special mission in the world, recalibrating its national idea to fit its reduced role and joining with lesser powers and small countries in Europe on terms of equality.

Whether even a transformed Russia would be accepted into and merge well with Europe is an open question. But the start of the process would need to be a Russian leadership able to get its public to accept permanent retrenchment and agree to embark on an arduous domestic restructuring. Outsiders should be humble as they contemplate how wrenching such an adjustment would be, especially without a hot-war defeat and military occupation.

It took France and the United Kingdom decades to relinquish their own senses of exceptionalism and global responsibility, and some would argue that their elites have still not fully done so. But even they have high GDPs, top-rated universities, financial power, and global languages. Russia has none of that. It does possess a permanent veto in the UN Security Council, as well as one of the world's two foremost doomsday arsenals and world-class cyberwarfare capabilities. These, plus its unique geography, do give it a kind of global reach. And yet, Russia is living proof that hard power is brittle without the other dimensions of great-power status. However much Russia might insist on being acknowledged as an equal to the United States, the European Union, or even China, it is not, and it has no near- or medium-term prospect of becoming one.

AND NOW FOR SOMETHING COMPLETELY DIFFERENT

What are Russia's concrete alternatives to a European-style restructuring and orientation? It has a very long history of being on the Pacific—and failing to become an Asian power. What it can claim is predominance in its region. There is no match for its conventional military among the other Soviet successor states, and the latter (with the exception of the Baltic states) are also economically dependent on Russia to various degrees. But regional military supremacy and economic leverage in Eurasia cannot underwrite enduring great-power status. Putin has failed to make the Eurasian Economic Union successful—but even if all potential members joined and worked together, their combined economic capabilities would still be relatively small.

Russia is a big market, and that can be attractive, but neighboring countries see risks as well as rewards in bilateral trade with the country. Estonia, Georgia, and Ukraine, for example, are generally willing to do business with Russia only provided they have an anchor in the West. Other states that are more economically dependent on Russia, such as Belarus and Kazakhstan, see risks in partnering with a country that not only lacks a model for sustained development but also, in the wake of its annexation of Crimea, might have territorial designs on them. A ballyhooed "strategic partnership" with China, meanwhile, has predictably produced little Chinese financing or investment to compensate for Western sanctions. And all the while, China has openly and vigorously been building its own Greater Eurasia, from the South China Sea through inner Asia to Europe, at Russia's expense and with its cooperation.

Today's muscular Russia is actually in structural decline, and Putin's actions have unwittingly yielded a Ukraine more ethnically homogeneous and more Western-oriented than ever before. Moscow has tense relations with nearly every one of its neighbors and even with its biggest trading partners, including most recently Turkey. Even Germany, Russia's most important foreign policy counterpart and one of its most important economic partners, has had enough, backing sanctions at a cost to its own domestic situation.

"It looks like the so-called 'winners' of the Cold War are determined to have it all and reshape the world into a place that could better serve their interests alone," Putin lectured the annual Valdai Discussion Club gathering in October 2014, following his Crimean annexation. But what poses an existential threat to Russia is not NATO or the West but

Russia's own regime. Putin helped rescue the Russian state but has put it back on a trajectory of stagnation and even possible failure. The president and his clique have repeatedly announced the dire necessity of prioritizing economic and human development, yet they shrink from the far-reaching internal restructuring necessary to make that happen, instead pouring resources into military modernization. What Russia really needs to compete effectively and secure a stable place in the international order is transparent, competent, and accountable government; a real civil service; a genuine parliament; a professional and impartial judiciary; free and professional media; and a vigorous, nonpolitical crackdown on corruption.

HOW TO AVOID BEARBAITING

Russia's current leadership continues to make the country bear the burdens of a truculent and independent foreign policy that is beyond the country's means and has produced few positive results. The temporary high afforded by a cunning and ruthless policy in Syria's civil war should not obscure the severity of Russia's recurrent strategic bind—one in which weakness and grandeur combine to produce an autocrat who tries to leap forward by concentrating power, which results in a worsening of the very strategic dilemma he is supposed to be solving. What are the implications of this for Western policy? How should Washington manage relations with a nuclear- and cyber-armed country whose rulers seek to restore its lost dominance, albeit a lesser version; undercut European unity; and make the country "relevant," come what may?

In this context, it is useful to recognize that there has actually never been a period of sustained good relations between Russia and the United States. (Declassified documents reveal that even the World War II alliance was fraught with deeper distrust and greater cross-purposes than has generally been understood.) This has been due not to misunderstandings, miscommunication, or hurt feelings but rather to divergent fundamental values and state interests, as each country has defined them. For Russia, the highest value is the state; for the United States, it is individual liberty, private property, and human rights, usually set out in opposition to the state. So expectations should be kept in check. Equally important, the United States should neither exaggerate the Russian threat nor underplay its own many advantages.

Russia today is not a revolutionary power threatening to overthrow the international order. Moscow operates within a familiar great-power school of international relations, one that prioritizes room for maneuver over morality and assumes the inevitability of conflict, the supremacy of hard power, and the cynicism of others' motives. In certain places and on certain issues, Russia has the ability to thwart U.S. interests, but it does not even remotely approach the scale of the threat posed by the Soviet Union, so there is no need to respond to it with a new Cold War.

The real challenge today boils down to Moscow's desire for Western recognition of a Russian sphere of influence in the former Soviet space (with the exception of the Baltic states). This is the price for reaching accommodation with Putin—something advocates of such accommodation do not always acknowledge frankly. It was the sticking point that prevented enduring cooperation after 9/11, and it remains a concession the West should never grant. Neither, however, is the West really able to protect the territorial integrity of the states inside Moscow's desired sphere of influence. And bluffing will not work. So what should be done?

Some invoke George Kennan and call for a revival of containment, arguing that external pressure will keep Russia at bay until its authoritarian regime liberalizes or collapses. And certainly, many of Kennan's insights remain pertinent, such as his emphasis in the "Long Telegram" that he dispatched from Moscow 70 years ago on the deep insecurity that drove Soviet behavior. Adopting his thinking now would entail maintaining or intensifying sanctions in response to Russian violations of international law, shoring up Western alliances politically, and upgrading NATO's military readiness. But a new containment could become a trap, re-elevating Russia to the status of rival superpower, Russia's quest for which has helped bring about the current confrontation.

Once again, patient resolve is the key. It is not clear how long Russia can play its weak hand in opposition to the United States and the EU, frightening its neighbors, alienating its most important trading partners, ravaging its own business climate, and hemorrhaging talent. At some point, feelers will be put out for some sort of rapprochement, just as sanctions fatigue will eventually kick in, creating the possibility for some sort of deal. That said, it is also possible that the present standoff might not end anytime soon, since Russia's pursuit of a Eurasian sphere of influence is a matter of national identity not readily susceptible to material cost-benefit calculations.

The trick will be to hold a firm line when necessary—such as refusing to recognize a privileged Russian sphere even when Moscow is able to enact one militarily—while offering negotiations only from a position of strength and avoiding stumbling into unnecessary and counterproductive confrontations on most other issues. Someday, Russia's leaders may come to terms with the glaring limits of standing up to the West and seeking to dominate Eurasia. Until then, Russia will remain not another necessary crusade to be won but a problem to be managed.

Russian Politics Under Putin

The System Will Outlast the Master

Gleb Pavlovsky

Between 1996 and 2011, I served as a consultant to the Kremlin, advising Russian Presidents Boris Yeltsin, Vladimir Putin, and Dmitry Medvedev. And yet even I can hardly claim to understand the real mechanisms of power in today's Russia. In the past few years, the country has reached a level of dysfunction that has pushed it to the brink, threatening its very existence. Ill-conceived military adventures, poor decision-making, and political skullduggery—sometimes of the lethal variety—have wreaked havoc on Russia's economy and led to international isolation.

Some have concluded that the problem is simply one of autocracy, that there is no longer any distinction between the Kremlin and Putin. As Vyacheslav Volodin, a high-level domestic policy aide to Putin, has publicly said, "While Putin is there, so is Russia; once Putin is gone, so is Russia." This conception of Putin as sole sovereign has developed only gradually. In a 2002 census questionnaire, Putin described himself as "an employee working in management, providing services to the people." Today, he has eschewed that modest image and embraced a cult of personality: portraits of Putin appear in many Russian homes, and busts of Putin crowd department store shelves. This aesthetic of dictatorship encourages the idea that the Russian state is Putin's property.

The trouble with that diagnosis is that it cannot explain Russia's recent erraticism. Putin is hardly a mysterious figure; his biography is well known. And his many opponents, despite their best efforts, have found no Machiavellian depravity in Putin's character. His hypocrisy and penchant for gambling are fundamentally rational and devoid of eccentricity.

So if the Russian state were nothing more than an extension of Putin, how would one explain the reckless decision to invade and annex Crimea in 2014 or the risky military intervention in Syria that Russia launched last year? If Russia were a pure autocracy, such actions would suggest a leader with a personality like Stalin's or Mussolini's. But there are no evil geniuses in the Kremlin today. Rather, powerful figures such as Sergei Ivanov, Putin's chief of staff; Vladislav Surkov, Putin's chief adviser on political strategy; and even Putin himself are more akin to experienced, competent bureaucrats, generally able to exercise administrative control, even if they act mostly in their own interest.

The reality, as attested by the past two years of chaos, is that despite his image as an all-powerful tsar, Putin has never managed to build a bureaucratically successful authoritarian state. Instead, he has merely crafted his own version of *sistema*, a complex practice of decision-making and power management that has long defined Russian politics and society and that will outlast

GLEB PAVLOVSKY is President of the Russia Institute and the Foundation for Effective Politics, in Moscow.

Putin himself. Putin has mastered *sistema*, but he has not replaced it with "Putinism" or a "Putin system." Someday, Putin will go. But *sistema* will stay.

PUTIN'S PENTHOUSE

The first version of Putin's system was called "managed democracy," and it lasted from when Putin first won office, in 2000, to 2012, the final year of Medvedev's four-year stint as president, during which Putin still exercised a great deal of power and authority. During that 12-year period, decisions were made at the very top and passed down a "power vertical," moving from the federal level down to the regional and local ones. In those days, we talked about an "administrative market," because presidential or prime-ministerial decisions were securities that had a quantifiable value. Consequently, they could be resold or reassigned.

In 2010, for example, Medvedev decided to create a public-private hybrid corporation to develop tourism in the North Caucasus. A coalition of state-owned banks, regional authorities, and local businesses swarmed around the project, which received around $2 billion in initial government funding and was projected to attract another $13 billion in private investment. Medvedev arranged for Akhmed Bilalov's appointment as board chair of the new corporation; at the time, Bilalov was also vice president of the Russian Olympic Committee and overseeing preparations for the 2014 Winter Olympics in Sochi. But when Medvedev and Putin switched offices in 2012, with Putin returning to the presidency and Medvedev becoming prime minister, Putin reasserted himself and conducted a purge of sorts. He criticized Bilalov for delays in Sochi and had him sacked from both his positions; a criminal investigation of him soon emerged, and he fled Russia. The hoped-for investments in the North Caucasus project never emerged. Today, the corporation is developing just two ski resorts in the region. Those who participated in other commercial projects during Medvedev's presidency suffered huge losses after Putin returned to office, and they had to go to great lengths to make sure they had not overstepped any boundaries and would not be put on trial. Putin has told friends that one billionaire, after receiving assurances that his access to the Kremlin would be maintained, crawled on his knees from the door of the presidential office to Putin's desk. Not expecting that, Putin was amused.

While managed democracy lasted, wealthy players knew that once a contract, sale, or merger of theirs reached a sufficiently high level, it was time for them to see Putin to explain the project. If Putin accepted it, they were told that his agreement was "placed on deposit." Yet in his third presidential term, Putin added a layer of uncertainty to this process by extending the power vertical, building a higher level that he alone occupies: a private penthouse. Today, he is only "kept up to date with the situation," as his press secretary, Dmitry Peskov, usually reports. Those who meet with Putin leave with only a vague idea of what they are supposed to do. They try their best to remember every word Putin said, so that one day, they can quote him. Those words are the only license they have.

NO ONE TO SAY NO

This new governance style relies on indirection and interpretation rather than command and control. Approval for any particular proposal takes the form of *otmashka*, which can be translated as "go-ahead," implying not so much an order as a license to act in a desired direction. *Otmashka* is granted to projects that the Kremlin deems *priemlemo*, an increasingly common term that means "acceptable" rather than, say, "satisfactory" or "excellent"—a word choice meant to imply a certain indifference to details.

Kremlin critics complain about a "Moscow autocracy," but how can minions do their jobs when it is not clear what the autocrat really wants? The bottom and middle of Putin's power vertical are always in search of the top, like Pirandello's six characters in search of an author. That is why today, significant actions on Russia's part rarely stem from Kremlin directives but rather result from a sort of contest among Kremlin-related groups, each seeking to prove its loyalty.

This dynamic has been on display in Ukraine. Although the annexation of Crimea involved a precisely planned military operation, Russian action in Ukraine since then has lacked coordination. Beginning in early 2014, a number of Russian groups with various interests and strategies became active in the conflict in the Donbas region of eastern Ukraine, which pits pro-Russian separatists against the government in Kiev. Ukrainian businessmen turned politicians who had long been close to the Kremlin sponsored and encouraged early protests in the region against the central government in Kiev. Grandees of Putin's entourage, such as the billionaire financier and self-described "Orthodox patriot" Konstantin Malofeev, allegedly bankrolled pro-Russian separatist militias. And throughout 2014, thousands of individual Russian volunteers crossed the virtually nonexistent border to join anti-Kiev militias. Putin could simply say: You can't stop the guys; they'll get there by themselves anyway. Give the lads some protection, but make sure things don't get out of hand.

Were such remarks directives? Not from Putin's perspective.

Putin never reveals his goals. The most minute maneuvers take the form of special operations in the Kremlin, as officials theatrically seek to hide the obvious. Today, for instance, they are concealing their preparations for the 2018 presidential election. Putin considers his succession of Yeltsin in 2000 as something of an ideal political operation, equaled perhaps only by the annexation of Crimea. The same team that engineered the succession and Putin's subsequent elections is still governing Russia. Transformed from a campaign committee into a presidential entourage, the team has changed only marginally in its composition. These are people who have never once told Putin, "You can't do that." Putin does not consult them for strategic advice, preferring to discuss the particulars of special operations. At meetings, he asks specific questions of his subordinates, and they supply answers; there is no larger discussion. His decision-making has become almost purely reactive. It is based not on goals but rather on current threats. There will always be more threats, the thinking goes, so why discuss future ones when you have to deal with the current ones?

CURATION NATION

An important feature of Putin's rule is the presence of what are known in the

My buddy and me: Ramzan Kadyrov and Vladimir Putin in Grozny, October 2008

ALEXEY NIKOLSKY / AFP / GETTY IMAGES

Kremlin as "curators," semiofficial figures through whom state governance flows. A curator is a political bureaucrat, a project manager authorized by the Kremlin to operate through personal agents. The curator is not publicly responsible for his agents' actions, and the agents follow his instructions only as long as they benefit from doing so. If a curator meets resistance, he is free to punish the recalcitrant party, either through bureaucratic means or by replacing him with another agent.

The trouble with curators is that it's far easier to set them loose than to rein them in. Consider the Donbas conflict. Putin allowed a number of curators to send fighters over the border to join pro-Russian militias. But by the summer of 2014, when a militia apparently shot down a civilian Malaysia Airlines jet over Ukraine, killing nearly 300 people, it became clear that Moscow needed to scale back its involvement in eastern Ukraine; the costs and risks were growing too large. Putin found, however, that it was easier to give a curator a go-ahead to advance than a go-ahead to retreat. Chechnya's strongman ruler, Ramzan Kadyrov, proved able to bring all his fighters home as soon as it seemed as if Putin wanted to dial down the fighting. But the curators proved unable to do so, and many fighters stayed put far longer than Putin wished.

Curators also create jurisdictional conflicts by stepping on one another's toes. In the aftermath of the Malaysia Airlines crisis, Putin gave Surkov temporary diplomatic authority to restore order in the Donbas—another new curator. As a result, during the talks in Minsk that produced a formal Donbas truce in early 2015, Surkov wound up playing as important a role as Russian Foreign Minister Sergey Lavrov, which led to tension between the two influential Putin men.

More generally, Lavrov finds himself in a difficult situation. Foreign policy is Putin's domain, and Lavrov is mostly Putin's personal ambassador, one who can be dispatched and recalled. Once called back to Moscow, he no longer represents anyone. So although Lavrov wants the Minsk agreement to hold, so that the situation in the Donbas does not spiral out of control, an atmosphere of military escalation would actually bolster his position. Indeed, the conflict in Ukraine turned Lavrov into a nationally popular figure. Then again, that is not a particular safe status in Putin's Russia. After the Medvedev experiment, Putin decided there would be no more seconds-in-command.

THE *SISTEMA* IS BROKEN

In her 2013 book, *Can Russia Modernise?*, the political theorist Alena Ledeneva applied the term *sistema* to contemporary Russian governance. During the Soviet era, that word referred to the relationship among the state, the Communist Party apparatus, and the people. Ledeneva defined the term more broadly, writing that its meaning was "elusive" but suggested "the paradoxical ways in which things get done in practice—adhering to official rules and formal procedures but also following unwritten codes and practical norms."

I have used the term in my own work, as well, and I define *sistema* as a style of exercising power that turns the country's people into temporary operating resources, against their wills and in breach of their rights. *Sistema* is a deep-seated facet of Russian culture that goes beyond politics and ideology, and it will persist long after Putin's rule has ended. *Sistema* combines the idea that the state should enjoy unlimited access to all national resources, public or private, with a kind of permanent state of emergency in which every level of society—businesses, social and ethnic groups, powerful clans, and even criminal gangs—is drafted into solving what the Kremlin labels "urgent state problems." Under Putin, *sistema* has become a method for making deals among businesses, powerful players, and the people. Business has not taken over the state, nor vice versa; the two have merged in a union of total and seamless corruption.

In this version of *sistema*, a government minister who does nothing but give his staff a directive and oversee its implementation is considered an idler. To do his job properly, he must involve some "real" people—that is, he has to open things up so that private interests and powerful individuals can profit in some way. Thus, "orders" become "deals"; in Putin's *sistema*, governance requires the temporary appropriation of the state regulator by groups of players. While participating in this game, a player may alternate his roles, moving from private entrepreneur to law enforcer, while continuing to benefit from the deals. *Sistema* can often work quite well, at least in the short term. In 2010, Anatoly Serdyukov, who served as Russia's defense minister from 2007 to 2012, launched a $430 billion reform program that involved notorious instances of corruption but that also successfully modernized the Russian armed forces.

Sistema is perhaps most visibly embodied by the Federation Council, the upper house of Russia's parliament. The council is essentially a club whose members consist of institutional, regional, and business interests that set up competing "projects." A winning project transforms a council member into a temporary monopolist who in turn distributes some of the spoils to many smaller beneficiaries. Russians are sincere in their denunciation of corrupt officials, and yet they defend and take pleasure in the paternalist comfort of *sistema*. They are proud of its maneuverability and flexibility: you can always find a way to get something done.

STATE-SPONSORED COMEDY

Sistema is flexible, but there is one constant: a ruling team that protects its grip on power. The electoral system in Russia is well developed and highly sophisticated. It is also completely useless. Elections are separated from the process of endowing the state with power; they amount to nothing more than an expensive ritual.

Take, for example, the way that regional gubernatorial elections work. Putin approves a candidate, following internal negotiations within the Kremlin; assessments by the regional curator; and dealmaking among cabinet members, local businesses, and alternative candidates who are given assistance with their business problems in exchange for staying out of the way. The anointed candidate's campaign headquarters is formed by a regional curator. Sometimes, the campaign is conducted "over the candidate's head," as the saying goes in Russia. Local businesses compete with one another, trying to express their loyalty to the candidate as convincingly as possible. Their motivation is simple: the threat of losing what they have, be it a retail business, a meat processing factory, or construction contracts.

However absurd this system may be, no governor is going to complain about it publicly. It is a state-sponsored comedy, crucial to maintaining Putin's aura of legitimacy by justifying his right to perpetual reelection. When Putin was first elected president, in 2000, he won just under 53 percent of the vote. To borrow from Max Weber's classic categories of authority, Putin's legitimacy at that point stemmed from the "rational-legal authority" bestowed on an elected leader. But over the years, Putin also began to draw legitimacy from what Weber called "charismatic authority." (As Weber wrote of the charismatic leader: "Men do not obey him by virtue of tradition or statute, but because they believe in him.") For a long time, Putin enjoyed a hybrid form of legitimacy that combined those two kinds of authority; many Russians came to see him as possessing an almost magical ability to win office for any term and at any time.

That image is being severely tested today, as ordinary Russians begin to feel the effects of a failing economy and a falling ruble. What is more, the state has begun to extract money from the people through a proliferation of new fines, including new road tolls and penalties for taking part in unauthorized rallies. It's hard for a leader to preserve his charismatic authority when his government turns into a glorified fine-collecting machine.

NO RETREAT, NO SURRENDER

At the beginning of the Putin era, the Kremlin bet on raw materials and won. Everyone knew that making Russia's economy more reliant on rising energy prices was risky and would probably lead to a dead end in a decade or two, but no one was worried too much about the future. And when prices inevitably began to fall, *sistema* responded to the threat by escalating, rather than retrenching, and finding new "urgent state problems." (One of the ironies of *sistema* is that despite the fact that Putin hates disorder, he is sometimes forced to manufacture and sell it.) When controlled emergencies could not be ginned up inside the country, foreign adventures sufficed: first Ukraine, then Syria, and now tensions with Turkey.

But the Donbas conflict revealed the difference between *sistema* and a genuinely functioning system of state institutions. Moscow had the full support of the Russian-speaking local population to build a separate state, but it failed to do so. Whenever the need arose for a managerial decision, key figures fell out of the picture. And if someone did manage to make a decision, no one was able to implement it. By the middle of 2014, as Western sanctions began to bite, it became clear that Moscow wanted to dial down the conflict. But *sistema* has no retreat mode. De-escalation in eastern Ukraine meant escalation in Syria.

New risks keep emerging, frightening even the most loyal bureaucrats. But the Kremlin dare not suppress the public's seemingly bottomless appetite for escalation. In state-run media, which the vast majority of Russians rely on for news, the Kremlin no longer distinguishes between analysis and propaganda. The fake reality on offer seems to have partly captured even Putin's mind.

BRAND MANAGEMENT

In *sistema*, governing is not about making decisions within certain norms but about contending with the very existence of the norms and, ideally, circumventing them. Decision-making via go-aheads and meaningful omissions has yielded a contest in which lower-level curators try to outdo one another in their demonstrations of loyalty to Putin, with increasingly worrying results. These include the 2006 murder of the reporter Anna Politkovskaya and the 2010 assault on the journalist Oleg Kashin, both of whom were fierce critics of the Kremlin. It might also include the 2006 assassination of Alexander Litvinenko, a former Russian intelligence officer who had become a Putin critic. Such acts of violence exposed the extent to which the curatorial system lacks control. But Putin is a pragmatist, and while things were working, he tolerated them.

Last year's assassination of the opposition politician Boris Nemtsov, however, clearly went beyond Putin's limits. Could Putin have said something about Nemtsov that someone could have taken as a go-ahead to kill him? That seems impossible to me. I have never heard anything like that from Putin, even with regard to people he hates. Putin sometimes mocked Nemtsov a bit, but he tolerated him. After the assassination, Putin disappeared for a few days—apparently, what had happened was too unexpected. It soon emerged that the alleged perpetrators were linked to Kadyrov, the Chechen leader, who is zealously loyal to Putin (and whom Putin, in return, has allowed to build a private fiefdom in Chechnya).

The conspiracy against Nemtsov was probably a conspiracy against Putin, too, albeit one set up so that it could be written off as another act of "excessive loyalty." Putin saw it as an attempt to put distance between him and Kadyrov. But he did not take the bait; he seems to have grasped the boundary of his power. Putin the man is now the manager of Putin the brand, which he must handle with care. Kadyrov controls an army and is more than willing to use it, as he demonstrated in eastern Ukraine. Everyone in Moscow is scared of Kadyrov, and his strength remains one of Putin's personal resources; it would make little sense for Putin to punish Kadyrov over Nemtsov's murder.

Still, Putin's absence after the killing served as a reminder of one of *sistema*'s most important features: fear and uncertainty regarding what happens when the leader is gone. Kremlin authorities have no clue what they would do in Putin's absence. They have nowhere to discuss any potential scenarios for a future state without Putin; indeed, they have been directly banned from having such discussions.

Putin's Kremlin team has been extremely skillful at nationalizing private resources and, in a sense, privatizing Russian politics. But they will have no idea how to run Russia when Putin is gone. In all likelihood, it will not matter who climbs to the top: the only way he will be able to rule is through *sistema*.

PUTIN'S RUSSIA

Russia's Constrained Economy

How the Kremlin Can Spur Growth

Sergei Guriev

In recent years, many discussions of the Russian economy have opened with an old joke. In the mid-1990s, John Major, the British prime minister, asked Russian President Boris Yeltsin to characterize Russia's economy in one word. "Good," Yeltsin said. Major, seeking more detail, asked him to elaborate in two words. Yeltsin replied: "Not good."

The joke was prescient. Over the past 25 years, Russia's economy has alternated between "good" and "not good." In the 1990s, Russia's GDP declined by some 40 percent, and in 1998, Russia suffered a major financial meltdown. Then, from 1999 to 2008, Russia's GDP grew by roughly seven percent per year on average, almost doubling in nine years. In the past few years, however, Russia's economy has taken a decisive turn for the worse.

In early 2013, Russian Prime Minister Dmitry Medvedev sought to push beyond official projections of four percent annual GDP growth. Yet by later that year, the Russian Ministry of Economic Development had revised Russia's growth forecast downward to between two and three percent. Now, even projections of two percent growth are considered optimistic. In 2015, Russian GDP actually shrank by close to four percent, and the International Monetary Fund's January 2016 *World Economic Outlook Update* projected a further one percent decline in 2016. Meanwhile, in 2015, inflation reached 13 percent, real wages (adjusted for inflation) fell by 9.5 percent, and real incomes dropped by four percent. The ruble's exchange rate with the dollar is now roughly half of what it was just two years ago, and RTS, Russia's primary dollar-denominated stock market index, has fallen to just over one-quarter of its 2008 peak.

Russia may not be doing as badly as it was in the 1990s, but it is certainly doing worse than at any time since then. Even the fall of Russia's GDP in the aftermath of the 2008 global financial crisis was short lived: the Russian economy contracted in 2009 but began growing again just one year later. Today, a confluence of factors—corruption, low oil and gas prices, and Western sanctions—is keeping Russia's economy from returning to fast growth.

Moscow has the power to reverse much of the damage—by stopping the violence in Ukraine, for example, or pursuing pro-growth, pro-market policies. Yet the government has chosen not to act, and President Vladimir Putin has failed to deliver on early promises he made to reform Russia's economy. In Moscow, few seem willing to change the status quo, and it is ordinary Russians who keep paying the price.

SERGEI GURIEV is Professor of Economics at Sciences Po, in Paris. Follow him on Twitter @sguriev.

"NOT GOOD"

Russia's economy faces three major obstacles. First, it suffers from a number of deep-seated problems, including endemic corruption, a weak rule of law, overregulation, and the dominance of state-owned and politically connected businesses and monopolies. The simplest way to understand the impact of these flaws is to look at investment flows. In the past few years, Russia has experienced substantial capital flight, as Russian and international investors have flocked to safer investment destinations. Since 2011, Russia has been losing four to eight percent of GDP annually in capital outflow—a significant amount given that total capital investment in Russia makes up 20 percent of GDP. Investors, fed up with Russia's poor protection of property rights and unpredictable judicial system, have moved their money elsewhere.

Second, the economy has taken a serious hit from the collapse in oil prices. From 2014 to 2016, global oil prices plummeted from $100 a barrel to about $30 a barrel. It is hard to overstate the damage that this plunge has wreaked on the Russian economy. Russia is not quite an oil economy: compared with, say, Saudi Arabia, where oil rents account for nearly 45 percent of GDP, Russia maintains a relatively diversified economy, with oil rents accounting for around 15 percent of GDP, according to the World Bank. But Russia does qualify as a petrostate, since about half its budget revenues come directly from taxes on oil and gas. In the past two years, those revenues have sunk from more than seven trillion rubles in 2014 (about $200 billion at that year's exchange rate) to an estimated six trillion rubles in 2016 (about $80 billion at the current exchange rate). The decline in oil prices has also caused asset prices, including oil company stocks and government bonds, to drop. Various estimates suggest that each ten percent dip in oil prices results in a roughly one-percentage-point decline in Russian GDP. The decrease in oil prices in 2015 thus reduced expectations for Russian GDP by five to six percent; 2016 may see a further dive.

Third, Western sanctions imposed after the annexation of Crimea have isolated Russia from global markets, and Russia's countersanctions, the country's retaliatory embargo on Western agricultural imports and fish, have only compounded the problem. By cutting Russia off from global financial markets, the sanctions have magnified the effect of falling oil prices. Were Russia financially integrated into the global economy, it could have borrowed from Western banks to mitigate the oil-price shock. Instead, Russia's inability to borrow has led to a dramatic depreciation of the ruble and a fall in real incomes and wages. Without access to credit, Russia has had to rely on its Reserve Fund, one of the country's two sovereign wealth funds. But as of January 2016, there was only 4.6 percent of GDP left in the fund, barely a third of what it held just seven years ago. There is another 6.6 percent of GDP in Russia's National Wealth Fund, which supports the country's pension system, but much of that money has already been committed to various investment projects, including some that provide financial support to companies targeted by Western sanctions.

If Russia's budget deficit remains at its current projected level of approximately three percent of GDP, the Reserve Fund will last until mid-2017. The problem is that the current budget assumes the price of oil will soon return to around $50 a barrel. If it stays at near $30 per barrel, as seems quite likely, the budget deficit will likely double, and the Reserve Fund will run out before the end of 2016. To stave off this possibility, Moscow will need to either cut spending or increase taxes. But the current budget is already the result of significant cuts: government spending in 2016 will be roughly eight percent lower in real terms than it was in 2015, which was already six percent lower than the government had forecast when it was putting together the budget projections in mid-2014, when oil prices were $100 a barrel. Moscow's cuts in government procurement, educational and health-care expenditures, and investment programs will put downward pressure on wages and employment and worsen the living standards of ordinary Russians.

DOWN BUT NOT OUT

It is not too late for Russia to reverse course. One option is for the government to continue implementing austerity policies by embracing further budget cuts. Yet the Russian people, tired of tightening their belts, may not support such measures for much longer.

Alternatively, Russia could focus its energies on persuading the West to lift the sanctions by de-escalating the conflict in Ukraine. If Russia could be reintegrated into global markets, Moscow could finance its deficit through external loans, eliminating the risk of bankruptcy. Because Russia's sovereign debt is still very low, at just roughly 14 percent of GDP, it would have little trouble selling bonds to close its budget gap.

But Russia will not be able to grow its economy in the long run without deeper structural reforms. These include privatizing state-owned companies, loosening regulations, fighting corruption, and improving the judicial system and law enforcement. Among Russian leaders, there is a broad consensus that such reforms are necessary for growth. In fact, in 2012, on the first day of his third presidential term, Putin signed Presidential Decree no. 596, "On Long-Term National Economic Policy," which detailed several pro-market reforms to be undertaken during his presidency. These included privatizing many government assets before 2016. Yet four years later, almost none of them have been implemented.

As a result, Russia's economy has not grown. The decree foresaw the creation of 25 million new jobs, annual labor productivity growth of six percent, an increase in the investment-to-GDP ratio from 24 percent of GDP in 2012 to 25 percent in 2018, and 30 percent growth in the share of high-technology industries in GDP by 2018. There has been no significant growth in any of these indicators. In fact, the investment-to-GDP ratio has actually declined, and labor productivity has stagnated.

Putin's record on reform is not completely negative, however. One place he has enjoyed success is in his attempt to improve Russia's business climate. In 2012, the World Bank ranked Russia 120th in the world on its annual Ease of Doing Business Index, which looks at metrics such as how easy it is to start a business and secure construction permits. Putin aimed to move Russia into the top 50 by 2015 and into the top 20 by 2018. In the fall of 2015, the World Bank ranked Russia 51st, which can fairly be counted as a victory, even

Money for nothing: at a market in Stavropol, southern Russia, January 2016

EDUARD KORNIYENKO / REUTERS

if Russia's rise in the ranking owed largely to a change in the index's methodology.

But it is unlikely that the country will be able to move from 51st place to a position in the top 20 in the next two years, as Putin pledged. And given the mounting capital flight from Russia, the metric may no longer be as relevant. Investors, it appears, care more about the geopolitical risk of investing in a country than about the ease of registering a company, connecting to the electrical grid, or getting a construction permit there. Still, Russia's rise in the ranking demonstrates that Moscow can enact and implement reforms designed by technocrats with limited political interference.

Another successful reform has been Russia's adoption of a floating exchange rate. In 2015 and early 2016, Russia's central bank wisely chose not to intervene in the currency market. As oil prices fell, the central bank allowed the ruble to depreciate, helping the economy regain international competitiveness. This stood in stark contrast to 2008–9, when the central bank actively defended the ruble in reaction to the global financial crisis by spending $200 billion of reserves. It was clear that the official ruble exchange rate was unsustainable, so banks stopped lending in rubles and instead bought and hoarded dollars. By the time the central bank allowed the ruble to fall, its credibility had been so undermined that it had to raise interest rates dramatically to provide a floor for the currency, aggravating the recession.

These two success stories aside, however, Moscow has largely forgotten its promises of privatization and pro-growth reform. Global energy prices remain beyond Moscow's direct control, of course, and there are limits to what a petrostate, such as Russia, can do when confronted with an oil and gas price slump. But it is within Putin's power to eliminate the other two obstacles facing Russia's economy by ending the conflict in Ukraine and pursuing structural reforms. The president, however, has preferred inaction. The government's major stakeholders—state-owned companies and politically connected businesses—benefit from the status quo. This is why there were no reforms when oil prices were high. Now, given the current economic climate, the reforms are even less likely to happen.

CAUSE FOR OPTIMISM

Yet even if the current state of the Russian economy is "not good," its long-term outlook is brighter. It will not be easy for Russia to implement structural reforms, reintegrate into the global economy, and build modern political and economic institutions. But if Russian leaders are willing to reform, Russia should be able to catch up to wealthier countries. Russia still has a large domestic market and a highly educated work force. Russia also benefits from a rich store of natural resources beyond oil and gas, including arable land. And although Russia's population is stagnating and aging, younger immigrants from neighboring countries could help offset those trends. In fact, forecasters predict that Russia's population will actually increase by 2030, owing largely to immigration from neighboring countries.

In 2005, the economists Ricardo Hausmann, Dani Rodrik, and Andrés Velasco proposed evaluating countries' development potential through "growth diagnostics," which involves determining the key factors that prevent a given country from developing. If their analytical model were applied to Russia, it would be clear that the country is constrained by its outdated political and economic institutions. Russia has many of the crucial ingredients for success, including savings and human capital, but to encourage long-lasting growth, it needs to enhance the protection of property rights, strengthen the rule of law, encourage competition, fight corruption, and integrate into the global economy. Other countries have enacted such reforms; there is no good reason for Russia not to join them.

GLOBAL

CITIZEN

U

TO UNDERSTAND GLOBAL ISSUES, YOU MUST BECOME PART OF THEM.

The growing influences of new world powers, emerging states and non-state actors, socioeconomic transformation, and cross-border crises have reshaped the field of global affairs. Those pursuing careers in this area must not only study the issues, they must be deeply involved in them. The MS in Global Affairs, offered by the NYU School of Professional Studies Center for Global Affairs, positions you in the heart of the international community of NYC, providing you with the contextual perspectives you need to become an effective problem solver and innovator. Global field intensives, exposure to renowned expert practitioners, and challenging projects form the basis of an education that allows you to live what you learn—anticipating the next global challenge.

MS in Global Affairs

CONCENTRATIONS:
Environment/Energy Policy
Global Gender Studies
Human Rights and International Law
International Development and
Humanitarian Assistance
International Relations/Global Futures
Peacebuilding
Private Sector
Transnational Security

Graduate Certificates in:
Global Energy
Peacebuilding
Transnational Security

VISIT: sps.nyu.edu/cga/programs1d **CALL:** 212-998-7100
REQUEST INFO./APPLY TODAY: sps.nyu.edu/gradinfo12d

NYU SCHOOL OF PROFESSIONAL STUDIES

FIND YOUR FUTURE SELF

The Revival of the Russian Military

How Moscow Reloaded

Dmitri Trenin

After the collapse of the Soviet Union, the Russian military rotted away. In one of the most dramatic campaigns of peacetime demilitarization in world history, from 1988 to 1994, Moscow's armed forces shrank from five million to one million personnel. As the Kremlin's defense expenditures plunged from around $246 billion in 1988 to $14 billion in 1994, according to the Stockholm International Peace Research Institute, the government withdrew some 700,000 servicemen from Afghanistan, Germany, Mongolia, and eastern Europe. So much had the prestige of the military profession evaporated during the 1990s that when the nuclear submarine *Kursk* sank in the Barents Sea in 2000, its captain was earning the equivalent of $200 per month.

From 1991 to 2008, during the presidency of Boris Yeltsin and the first presidential term of Vladimir Putin, Russia used its scaled-down military within the borders of the former Soviet Union, largely to contain, end, or freeze conflicts there. Over the course of the 1990s, Russian units intervened in ethnic conflicts in Georgia and Moldova and in the civil war in Tajikistan—all minor engagements. Even for the operation in Chechnya, where Yeltsin sent the Russian military in 1994 in an attempt to crush a separatist rebellion, the Russian General Staff was able to muster only 65,000 troops out of a force that had, in theory, a million men under arms.

Beyond the borders of the former Soviet Union, Russia acted meekly. It sought a partnership with the United States and at times cooperated with NATO, joining the peacekeeping operation led by that alliance in Bosnia and Herzegovina in 1996. To be sure, after realizing in the mid-1990s that NATO membership was off the table, Moscow protested vehemently against the alliance's eastern expansion, its 1999 bombing campaign in Yugoslavia, and the 2003 U.S. invasion of Iraq, but Russia was too weak to block any of these moves. The Kremlin's top priority for military development remained its nuclear deterrent, which it considered the ultimate guarantor of Russia's security and sovereignty.

Those days of decay and docility are now gone. Beginning in 2008, Putin ushered in military reforms and a massive increase in defense spending to upgrade Russia's creaky military. Thanks to that project, Russia has recently evinced a newfound willingness to use force to get what it wants. First, in February 2014, Moscow sent soldiers in unmarked uniforms to wrest control of Crimea from Ukraine, implicitly threatening Kiev with a wider invasion. It then provided weaponry, intelligence, and command-and-control support to the pro-Russian separatists in Ukraine's Donbas region, checking Kiev's attempts to defeat them. And then, in the fall of 2015, Russia ordered its air and naval

DMITRI TRENIN is Director of the Carnegie Moscow Center. Follow him on Twitter @DmitriTrenin.

forces to bomb militants in Syria fighting President Bashar al-Assad, intervening directly in the Middle East for the first time in history.

These recent interventions are a far cry from the massive campaigns the Soviet Union used to undertake. But the fact is, Russia is once again capable of deterring any other great power, defending itself if necessary, and effectively projecting force along its periphery and beyond. After a quarter century of military weakness, Russia is back as a serious military force in Eurasia.

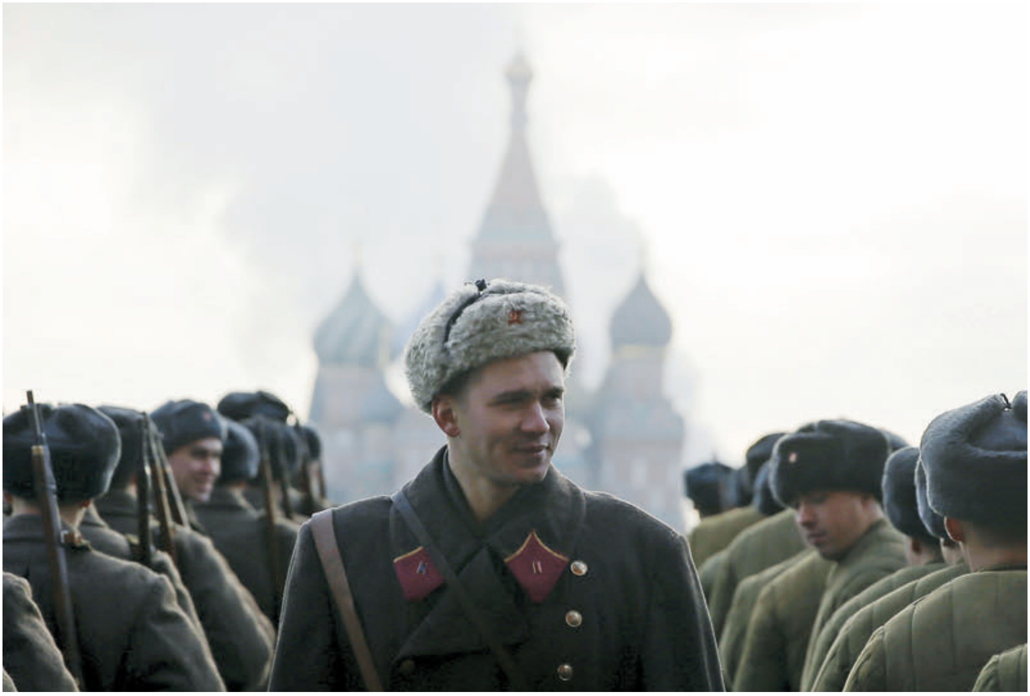
GEORGIA ON ITS MIND

The story of Russia's military modernization begins with its 2008 war in Georgia. In August of that year, Russian forces routed troops loyal to the pro-Western president, Mikheil Saakashvili, and secured the breakaway republics of Abkhazia and South Ossetia as Russian protectorates. The five-day campaign was a clear success: Moscow prevented NATO from expanding into a former Soviet state that was flirting with membership, confirmed its strategic supremacy in its immediate southern and western neighborhood, and marked the limits of Western military involvement in the region. By increasing its military footprint in Abkhazia and South Ossetia, Russia also bolstered its control of two strategically important areas in Transcaucasia—securing the approach to Sochi, the location of the Russian president's southern residence and Russia's informal third capital, in the former, and placing Russian forces within striking distance of Tbilisi in the latter.

Yet for all these gains, Russia fought its brief war against Georgia with unreformed, bulky remnants of the Soviet military. Russian soldiers were forced to use outdated weaponry, and Russian officers, overseeing troops who were insufficiently prepared for combat, even had to give orders using civilian cell phones after their military radios failed. By the end of the conflict, Russia had lost five military aircraft, including a strategic bomber. Moscow won the war against a much weaker enemy, but the flaws in its own military were too glaring to ignore.

And so two months after its war with Georgia, the Kremlin embarked on an ambitious program of defense modernization and military restructuring. These efforts, which Russian officials have projected will cost some $700 billion by 2020, are intended to transform the Russian military from a massive standing force designed for global great-power war into a lighter, more mobile force suited for local and regional conflicts. Moscow has pledged to streamline its command-and-control system, improve the combat readiness of its troops, and reform procurement. And in a radical break from a model that had been in place since the 1870s, Russia adopted a flexible force structure that will allow it to quickly deploy troops along the country's periphery without undertaking mass mobilization.

Russia's defense industry, meanwhile, began to provide this changing force with modern weapons systems and equipment. In 2009, after a hiatus of about two decades, during which the Kremlin cut off funding for all but company- or battalion-level exercises, Russian forces began to undertake large-scale military exercises, often without prior warning, to improve their combat readiness. Perhaps most important,



Big green men: a military parade in Moscow's Red Square, November 2015

MAXIM SHEMETOV / REUTERS

Russian soldiers, sailors, and airmen came to be paid more or less decently. By the time the Ukraine crisis broke out, Russia's military was far stronger than the disorganized and poorly equipped force that had lumbered into Georgia just five and a half years before.

EUROPE GOES BIPOLAR

The Russian military executed the Crimea operation brilliantly, rapidly seizing the peninsula with minimal casualties. Blueprints for the takeover must have existed for years, at least since Ukraine expressed interest in joining NATO in 2008. But it took a reformed military, plus a remarkable degree of coordination among Russia's various services and agencies, to pull it off.

The operation in Crimea was not a shooting war, but actual fighting followed a few weeks later in the Donbas. Instead of ordering a massive cross-border invasion of eastern Ukraine, which Moscow had implicitly threatened and Kiev feared, the Putin government resorted to a tactic known in the West as "hybrid warfare": providing logistical and intelligence support for the pro-Russian separatists in the Donbas while undertaking military exercises near the Ukrainian border to keep Kiev off balance. Moscow did send active-duty Russian officers to eastern Ukraine, some of whom were ostensibly on leave. But the bulk of the Russian-provided manpower in the country was made up of volunteers, and regular Russian units operated there only intermittently.

At the same time, Russia put NATO countries on notice: stay out of the conflict, or it may affect you, too. Russian warplanes—which in 2007 had resumed Cold War–era patrols around the world—skirted the borders of the United Kingdom, the United States, and several

Scandinavian countries and got close to Western planes over the Baltic and Black Seas. Putin later admitted on Russian television that he had even considered putting Russia's nuclear forces on high alert to defend its interests in Ukraine.

Russia benefited from its Ukraine campaign in several ways. The gambit allowed Moscow to incorporate Crimea, and it kept Kiev fearful of a full-scale invasion, which made the new Ukrainian leadership abandon the idea of using all of the country's available forces to suppress the separatist rebellion in the Donbas. It also directly challenged U.S. dominance in the region, terrifying some of Russia's neighbors, especially the Baltic states, which feared that Moscow might pull off similar operations in support of their own minority Russian populations. By provoking even deeper hostility toward Russia not only among Ukraine's elites but also among its broader population, however, Russia's military actions in Ukraine have also had a major downside.

Moscow's use of force to change borders and annex territory did not so much mark the reappearance of realpolitik in Europe—the Balkans and the Caucasus saw that strategic logic in spades in the 1990s and the early years of this century—as indicate Russia's willingness and capacity to compete militarily with NATO. The year 2014 was when European security again became bipolar.

PUTIN BREAKS THE MOLD

For all its novelties, the Russian offensive in Ukraine did not end Moscow's tendency to project force only within the borders of the former Soviet Union. Russia broke that trend last year, when it dove into Syria's civil war. It dispatched several dozen aircraft to Syria to strike the self-proclaimed Islamic State (also known as ISIS) and other anti-Assad forces, established advanced air defense systems within Syria, sent strategic bombers on sorties over the country from bases in central Russia, and ordered the Russian navy to fire missiles at Syrian targets from positions in the Caspian and Mediterranean Seas. By doing so, Russia undermined the de facto monopoly on the global use of force that the United States has held since the collapse of the Soviet Union.

Moscow's immediate military objective in Syria has been to prevent the defeat of Assad's army and a subsequent takeover of Damascus by ISIS, a goal it has sought to achieve primarily through the empowerment of Syrian government forces and their Hezbollah and Iranian allies. Its political objective, meanwhile, has been to engineer a peace settlement that protects Russian interests in the country and the wider region—above all, by ensuring that Syria's postwar, post-Assad government remains friendly to Russia; that Moscow is able to retain a military presence in Syria; and that Russia's wartime partnerships with Iran, Iraq, and Kurdish forces produce lasting political and economic ties.

Even more important, Putin seeks to confirm Russia's status as a great power, in part by working alongside the United States as a main cosponsor of a diplomatic process to end the war and as a guarantor of the ensuing settlement. Putin's historic mission, as he sees it, is to keep Russia in one piece and return it to its rightful place among the world's powers; Russia's intervention in Syria has demonstrated the importance of military force in reaching that goal. By acting boldly despite its limited resources, Russia has helped shift the strategic balance in Syria and staged a spectacular comeback in a region where its relevance was written off 25 years ago.

The operation in Syria has had its disadvantages for Moscow. In November 2015, a Turkish fighter jet downed a Russian bomber near the Syrian-Turkish border, the first such incident between Russia and a NATO country in more than half a century. Russia refrained from military retaliation, but its relations with Turkey, a major economic partner, suffered a crushing blow when Moscow imposed sanctions that could cost the Turkish economy billions of dollars. By siding with the Shiite regimes in Iran, Iraq, and Syria, Russia could also alienate its own population of some 16 million Muslims, most of whom are Sunni. Faced with this risk, Moscow has attempted to improve ties with some of the Middle East's Sunni players, such as Egypt; it has also wagered that keeping Assad's military afloat will ensure that the thousands of Russian and Central Asian jihadists fighting for ISIS in Iraq and Syria will never return to stir up trouble at home. Thus, Moscow's war in support of Assad and against ISIS has also been an effort to kill individuals who might threaten Russia's own stability.

NOT IN MY BACKYARD

Where will the Russian military go next? Moscow is looking to the Arctic, where the hastening retreat of sea ice is exposing rich energy deposits and making commercial navigation more viable. The Arctic littoral countries, all of which are NATO members except for Russia, are competing for access to resources there; Russia, for its part, hopes to extend its exclusive economic zone in the Arctic Ocean so that it can lay claim to valuable mineral deposits and protect the Northern Sea Route, a passage for maritime traffic between Europe and Asia that winds along the Siberian coast. To bolster its position in the High North, Russia is reactivating some of the military bases there that were abandoned after the collapse of the Soviet Union. It is also building six new military installations in the region. Tensions in the Arctic remain mild, but that could change if there is a major standoff between NATO and Russia elsewhere or if Finland and Sweden, the two historically neutral Nordic countries, apply for NATO membership.

More likely, Russia will take military action near its southern border, particularly if ISIS, which has established a foothold in Afghanistan, manages to expand into the Central Asian states, all of which are relatively fragile. The countries with the region's largest economies, Kazakhstan and Uzbekistan, will soon face leadership transitions as their septuagenarian presidents step down or die. Kyrgyzstan and Tajikistan, where Russia keeps small army and air force garrisons, will not prove stable in the long term; like Turkmenistan, they are home to high unemployment, official corruption, ethnic tension, and religious radicalism—the same sort of problems that triggered the Arab Spring.

The memory of the Soviet quagmire in Afghanistan is still too fresh for the Kremlin to seriously contemplate invading the country again to put down ISIS there; instead, it will continue to support the Afghan government and the Taliban's efforts to take on the group. But that is not the case in Central Asia, which Russia considers a vital security buffer. If the government of Kazakhstan, Kyrgyzstan, or Tajikistan faces a major challenge from Islamist extremists, Russia will likely intervene politically and militarily, perhaps under the mandate of the Collective Security Treaty Organization, an alliance to which all four states belong.

In the coming years, then, Russia's military will continue to focus on the country's vast neighborhood in greater Eurasia, where Moscow believes using force constitutes strategic defense. If Russia's venture in Syria fails to achieve Moscow's political objectives there, or if Russia's economy significantly deteriorates, that instance of intervention beyond the country's near abroad may prove to be an exception. If not, Russia might learn to efficiently use its military force around the world, backing up its claim to be one of the world's great powers, alongside China and the United States.

A NEW STANDOFF?

Even as Moscow has reformed its military to deal with new threats, Russian defense planning has remained consistently focused on the United States and NATO, which the Kremlin still considers its primary challenges. Russia's National Security Strategy for 2016 describes U.S. policy toward Russia as containment; it also makes clear that Russia considers the buildup of NATO's military capabilities a threat, as it does the development of U.S. ballistic missile defenses and the Pentagon's ongoing project to gain the ability to strike anywhere on earth with conventional weapons within an hour. To counter these moves, Russia is modernizing its nuclear arsenal and its own air and missile defenses. Moscow is also revising the deployment pattern of its forces, particularly along Russia's western border, and it will likely deepen its military footprint in the Baltic exclave of Kaliningrad. Estonia, Latvia, Lithuania, and Poland are safe, however, even if they do not feel that way: the Kremlin has no interest in risking nuclear war by attacking a NATO member state, and the sphere of Russian control to which Putin aspires certainly excludes these countries.

At the same time that Russia is rebuilding its military, NATO is ramping up its own military presence in eastern Europe. The result will likely be a new and open-ended military standoff. Unlike during the Cold War, however, there is little prospect for arms control agreements between Russia and the West anytime soon because of the many disparities in their conventional military capabilities. Indeed, the Russian armed forces are unlikely to become as powerful as the U.S. military or threaten a NATO member state with a massive invasion even in the long term. Although Moscow seeks to remain a major player on the international stage, Russian leaders have abandoned Soviet-era ambitions of global domination and retain bad memories of the Cold War–era arms race, which fatally weakened the Soviet Union.

What is more, Russia's resources are far more limited than those of the United States: its struggling economy is nowhere near the size of the U.S. economy, and its aging population is less than half as large as the U.S. population. The Russian defense industry, having barely survived two decades of neglect and decay, faces a shrinking work force, weaknesses in key areas such as electronics, and the loss of traditional suppliers such as Ukraine. Although Russia's military expenditures equaled 4.2 percent of GDP in 2015, the country cannot bear such high costs much longer without cutting back on essential domestic needs, particularly in the absence of robust economic growth. For now, even under the constraints of low energy prices and Western sanctions, Russian officials have pledged to continue the military modernization, albeit at a slightly slower pace than was originally planned.

Putin and other Russian officials understand that Russia's future, and their own, depends mostly on how ordinary citizens feel. Just as the annexation of Crimea was an exercise in historic justice for most of the Russian public, high defense spending will be popular so long as Russian citizens believe that it is warranted by their country's international position. So far, that seems to be the case. The modernization program could become a problem, however, if it demands major cuts to social spending and produces a sharp drop in living standards. The Russian people are famously resilient, but unless the Kremlin finds a way to rebuild the economy and provide better governance in the next four or five years, the social contract at the foundation of the country's political system could unravel. Public sentiment is not a trivial matter in this respect: Russia is an autocracy, but it is an autocracy with the consent of the governed.

Putin's Foreign Policy

The Quest to Restore Russia's Rightful Place

Fyodor Lukyanov

In February, Moscow and Washington issued a joint statement announcing the terms of a "cessation of hostilities" in Syria—a truce agreed to by major world powers, regional players, and most of the participants in the Syrian civil war. Given the fierce mutual recriminations that have become typical of U.S.-Russian relations in recent years, the tone of the statement suggested a surprising degree of common cause. "The United States of America and the Russian Federation . . . [are] seeking to achieve a peaceful settlement of the Syrian crisis with full respect for the fundamental role of the United Nations," the statement began. It went on to declare that the two countries are "fully determined to provide their strongest support to end the Syrian conflict."

What is even more surprising is that the truce has mostly held, according to the UN, even though many experts predicted its rapid failure. Indeed, when Russia declared in March that it would begin to pull out most of the forces it had deployed to Syria since last fall, the Kremlin intended to signal its belief that the truce will hold even without a significant Russian military presence.

The cease-fire represents the second time that the Russians and the Americans have unexpectedly and successful cooperated in Syria, where the civil war has pitted Moscow (which acts as the primary protector and patron of Syrian President Bashar al-Assad) against Washington (which has called for an end to Assad's rule). In 2013, Russia and the United States agreed on a plan to eliminate Syria's chemical weapons, with the Assad regime's assent. Few believed that arrangement would work either, but it did.

These moments of cooperation highlight the fact that, although the world order has changed beyond recognition during the past 25 years and is no longer defined by a rivalry between two competing superpowers, it remains the case that when an acute international crisis breaks out, Russia and the United States are often the only actors able to resolve it. Rising powers, international institutions, and regional organizations frequently cannot do anything—or don't want to. What is more, despite Moscow's and Washington's expressions of hostility and contempt for each other, when it comes to shared interests and common threats, the two powers are still able to work reasonably well together.

And yet, it's important to note that these types of constructive interactions on discrete issues have not changed the overall relationship, which remains troubled. Even as it worked with Russia on the truce, the United States continued to enforce the sanctions it had placed on Russia in response to the 2014 annexation of Crimea, and a high-level U.S.

FYODOR LUKYANOV is Editor in Chief of *Russia in Global Affairs*, Chair of the Presidium of the Council on Foreign and Defense Policy, and a Research Professor at the National Research University Higher School of Economics, in Moscow.

Treasury official recently accused Russian President Vladimir Putin of personal corruption.

The era of bipolar confrontation ended a long time ago. But the unipolar moment of U.S. dominance that began in 1991 is gone, too. A new, multipolar world has brought more uncertainty into international affairs. Both Russia and the United States are struggling to define their proper roles in the world. But one thing that each side feels certain about is that the other side has overstepped. The tension between them stems not merely from events in Syria and Ukraine but also from a continuing disagreement about what the collapse of the Soviet Union meant for the world order. For Americans and other Westerners, the legacy of the Soviet downfall is simple: the United States won the Cold War and has taken its rightful place as the world's sole superpower, whereas post-Soviet Russia has failed to integrate itself as a regional power in the Washington-led postwar liberal international order. Russians, of course, see things differently. In their view, Russia's subordinate position is the illegitimate result of a never-ending U.S. campaign to keep Russia down and prevent it from regaining its proper status.

In his annual address to the Russian legislature in 2005, Putin famously described the disappearance of the Soviet Union as a "major geopolitical disaster." That phrase accurately captures the sense of loss that many Russians associate with the post-Soviet era. But a less often noted line in that speech conveys the equally crucial belief that the West misinterpreted the end of the Cold War. "Many thought or seemed to think at the time that our young democracy was not a continuation of Russian statehood, but its ultimate collapse," Putin said. "They were mistaken." In other words: the West thought that Russia would forever going forward play a fundamentally diminished role in the world. Putin and many other Russians begged to differ.

In the wake of the 2014 Russian reclamation of Crimea and the launch of Russia's direct military intervention in Syria last year, Western analysts have frequently derided Russia as a "revisionist" power that seeks to alter the agreed-on post–Cold War consensus. But in Moscow's view, Russia has merely been responding to temporary revisions that the West itself has tried to make permanent. No genuine world order existed at the end of the twentieth century, and attempts to impose U.S. hegemony have slowly eroded the principles of the previous world order, which was based on the balance of power, respect for sovereignty, noninterference in other states' internal affairs, and the need to obtain the UN Security Council's approval before using military force.

By taking action in Ukraine and Syria, Russia has made clear its intention to restore its status as a major international player. What remains unclear is how long it will be able to maintain its recent gains.

NO WORLD ORDER

In January 1992, a month after the official dissolution of the Soviet Union, U.S. President George H. W. Bush announced in his State of the Union address: "By the grace of God, America won the Cold War." Bush put as fine a point as possible on it: "The Cold War didn't 'end'—it was won."

Russian officials have never made so clear a statement about what, exactly, happened from their point of view. Their assessments have ranged from "we won" (the Russian people overcame a repressive communist system) to "we lost" (the Russians allowed a great country to collapse). But Russian leaders have all agreed on one thing: the "new world order" that emerged after 1991 was nothing like the one envisioned by Mikhail Gorbachev and other reform-minded Soviet leaders as a way to prevent the worst possible outcomes of the Cold War. Throughout the late 1980s, Gorbachev and his cohort believed that the best way out of the Cold War would be to agree on new rules for global governance. The end of the arms race, the reunification of Germany, and the adoption of the Charter of Paris for a New Europe aimed to reduce confrontation and forge a partnership between the rival blocs in the East and the West.

But the disintegration of the Soviet Union rendered that paradigm obsolete. A "new world order" no longer meant an arrangement between equals; it meant the triumph of Western principles and influence. And so in the 1990s, the Western powers started an ambitious experiment to bring a considerable part of the world over to what they considered "the right side of history." The project began in Europe, where the transformations were mainly peaceful and led to the emergence and rapid expansion of the EU. But the U.S.-led 1990–91 Gulf War introduced a new dynamic: without the constraints of superpower rivalry, the Western powers seemed to feel emboldened to use direct military intervention to put pressure on states that resisted the new order, such as Saddam Hussein's Iraq.

Soon thereafter, NATO expanded eastward, mainly by absorbing countries that had previously formed a buffer zone around Russia. For centuries, Russian security strategy has been built on defense: expanding the space around the core to avoid being caught off-guard. As a country of plains, Russia has experienced devastating invasions more than once; the Kremlin has long seen reinforcing "strategic depth" as the only way to guarantee its survival. But in the midst of economic collapse and political disorder in the immediate post-Soviet era, Russia could do little in response to EU consolidation and NATO expansion.

The West misinterpreted Russia's inaction. As Ivan Krastev and Mark Leonard observed last year in these pages, Western powers "mistook Moscow's failure to block the post–Cold War order as support for it." Beginning in 1994, long before Putin appeared on the national political stage, Russian President Boris Yeltsin repeatedly expressed deep dissatisfaction with what he and many Russians saw as Western arrogance. Washington, however, viewed such criticism from Russia as little more than a reflexive expression of an outmoded imperial mentality, mostly intended for domestic consumption.

From the Russian point of view, a critical turning point came when NATO intervened in the Kosovo war in 1999. Many Russians—even strong advocates of liberal reform—were appalled by NATO's bombing raids against Serbia, a European country with close ties to Moscow, which were intended to force

Bad old days: during an attempted coup against Mikhail Gorbachev, August 1991

DIMA TANIN / AFP / GETTY IMAGES

the Serbs to capitulate in their fight against Kosovar separatists. The success of that effort—which also led directly to the downfall of the Serbian leader Slobodan Milosevic the following year—seemed to set a new precedent and provide a new template. Since 2001, NATO or its leading member states have initiated military operations in Afghanistan, Iraq, and Libya. All three campaigns led to various forms of regime change and, in the case of Iraq and Libya, the deterioration of the state.

In this sense, it is not only NATO's expansion that has alarmed Russia but also NATO's transformation. Western arguments that NATO is a purely defensive alliance ring hollow: it is now a fighting group, which it was not during the Cold War.

VICTORS AND SPOILS

As the United States flexed its muscles and NATO became a more formidable organization, Russia found itself in a strange position. It was the successor to a superpower, with almost all of the Soviet Union's formal attributes, but at the same time, it had to overcome a systemic decline while depending on the mercy (and financial support) of its former foes. For the first dozen or so years of the post-Soviet era, Western leaders assumed that Russia would respond to its predicament by becoming part of what can be referred to as "wider Europe": a theoretical space that featured the EU and NATO at its core but that also incorporated countries that were not members of those organizations by encouraging them to voluntarily adopt the norms and regulations associated with membership. In other words, Russia was offered a limited niche inside Europe's expanding architecture. Unlike Gorbachev's concept of a common European home where the Soviet Union would be a co-designer of a new world order, Moscow instead had to give up its global aspirations and agree to obey rules it had played no part in devising. European Commission President Romano Prodi expressed this formula best in 2002: Russia would share with the EU "everything but institutions." In plain terms, this meant that Russia would adopt EU rules and regulations but would not be able to influence their development.

For quite a while, Moscow essentially accepted this proposition, making only minimal efforts to expand its global role. But neither Russian elites nor ordinary Russians ever accepted the image of their country as a mere regional power. And the early years of the Putin era saw the recovery of the Russian economy—driven to a great extent by rising energy prices but also by Putin's success in reestablishing a functioning state—with a consequent increase in Russia's international influence. Suddenly, Russia was no longer a supplicant; it was a critical emerging market and an engine of global growth.

Meanwhile, it became difficult to accept the Western project of building a liberal order as a benign phenomenon when a series of so-called color revolutions in the former Soviet space, cheered on (at the very least) by Washington, undermined governments that had roots in the Soviet era and reasonably good relations with Moscow. In Russia's opinion, the United States and its allies had convinced themselves that they had the right, as moral and political victors, to change not only the world order but also the internal orders of individual countries however they saw fit. The concepts of "democracy promotion" and "transformational diplomacy" pursued by the George W. Bush administration conditioned interstate relations on altering any system of government that did not match Washington's understanding of democracy.

THE IRON FIST

In the immediate post-9/11 era, the United States was riding high. But in more recent years, the order designed by Washington and its allies in the 1990s has come under severe strain. The many U.S. failures in the Middle East, the 2008 global financial crisis and the subsequent recession, mounting economic and political crises in the EU, and the growing power of China made Russia even more reluctant to fit itself into the Western-led international system. What is more, although the West was experiencing growing difficulties steering its own course, it never lost its desire to expand—pressuring Ukraine, for example, to align itself more closely with the EU even as the union appeared to be on the brink of profound decay. The Russian leadership came to the conclusion that Western expansionism could be reversed only with an "iron fist," as the Russian political scientist Sergey Karaganov put it in 2011.

The February 2014 ouster of Ukrainian President Viktor Yanukovych by pro-Western forces was, in a sense, the final straw for Russia. Moscow's operation in Crimea was a response to the EU's and NATO's persistent eastward expansion during the post–Cold War period.

Moscow rejected the further extension of Western influence into the former Soviet space in the most decisive way possible—with the use of military force. Russians had always viewed Crimea as the most humiliating loss of all the territories left outside of Russia after the disintegration of the Soviet Union. Crimea has long been a symbol of a post-Soviet unwillingness to fight for Russia's proper status. The return of the peninsula righted that perceived historical wrong, and Moscow's ongoing involvement in the crisis in Ukraine has made the already remote prospect of Ukrainian membership in NATO even more unlikely and has made it impossible to imagine Ukraine joining the EU anytime soon.

The Kremlin has clearly concluded that in order to defend its interests close to Russia's borders, it must play globally. So having drawn a line in Ukraine, Russia decided that the next place to put down the iron fist would be Syria. The Syrian intervention was aimed not only at strengthening Assad's position but also at forcing the United States to deal with Moscow on a more equal footing. Putin's decision to begin pulling Russian forces out of Syria in March did not represent a reversal; rather, it was a sign of the strategy's success. Moscow had demonstrated its military prowess and changed the dynamics of the conflict but had avoided being tied down in a Syrian quagmire.

IDENTITY CRISIS

There is no doubt that during the past few years, Moscow has achieved some successes in its quest to regain international stature. But it's difficult to say whether these gains will prove lasting. The Kremlin may have outmaneuvered its Western rivals in some ways during the crises in Ukraine and Syria, but it still faces the more difficult long-term challenge of finding a credible role in the new, multipolar environment. In recent years, Russia has shown considerable skill in exploiting the West's missteps, but Moscow's failure to develop a coherent economic strategy threatens the long-term sustainability of its newly restored status.

As Moscow has struggled to remedy what it considers to be the unfair outcome of the Cold War, the world has changed dramatically. Relations between Russia and the United States no longer top the international agenda, as they did 30 years ago. Russia's attitude toward the European project is not as important as it was in the past. The EU will likely go through painful transformations in the years to come, but mostly not on account of any actions Moscow does or does not take.

Russia has also seen its influence wane on its southern frontier. Historically, Moscow has viewed Central Asia as a chessboard and has seen itself as one of the players in the Great Game for influence. But in recent years, the game has changed. China has poured massive amounts of money into its Silk Road Economic Belt infrastructure project and is emerging as the biggest player in the region. This presents both a challenge and an opportunity for Moscow, but more than anything, it serves as a reminder that Russia has yet to find its place in what the Kremlin refers to as "wider Eurasia."

Simply put, when it comes to its role in the world, Russia is in the throes of an identity crisis. It has neither fully integrated into the liberal order nor built its own viable alternative. That explains why the Kremlin has in some ways adopted the Soviet model—eschewing the communist ideology, of course, but embracing a direct challenge to the West, not only in Russia's core security areas but far afield, as well. To accompany this shift, the Russian leadership has encouraged the idea that the Soviet disintegration was merely the first step in a long Western campaign to achieve total dominance, which went on to encompass the military interventions in Yugoslavia, Iraq, and Libya and the color revolutions in post-Soviet countries—and which will perhaps culminate in a future attempt to pursue regime change in Russia itself. This deep-rooted view is based on the conviction that the West not only seeks to continue geopolitical expansion in its classical form but also wants to make everyone do things its way, by persuasion and example when possible, but by force when necessary.

Even if one accepts that view of Western intentions, however, there is not much Moscow can do to counter the trend by military means only. Influence in the globalized world is increasingly determined by economic strength, of which Russia has little, especially now that energy prices are falling. Economic weakness can be cloaked by military power or skillful diplomacy, but only for a short time.

ANGRY, OR FOCUSING?

Putin and most of those who are running the country today believe that the Soviet collapse was hastened by perestroika, the political reform initiated by Gorbachev in the late 1980s. They dread a recurrence of the instability that accompanied that reform and perceive as a threat anything and anyone that might make it harder to govern. But the Kremlin would do well to recall one of the most important lessons of perestroika. Gorbachev had ambitious plans to create a profoundly different relationship with the West and the rest of the world. This agenda, which the Kremlin dubbed "new political thinking," was initially quite popular domestically and was well received abroad as well. But as Gorbachev struggled and ultimately failed to restart the Soviet economy, "new political thinking" came to be seen as an effort to compensate for—or distract attention from—rapid socioeconomic decline by concentrating on foreign policy. That strategy didn't work then, and it's not likely to work now.

It's doubtful that the Kremlin will make any significant moves on the Russian economy before 2018, when the next presidential election will take place, in order to avoid any problems that could complicate Putin's expected reelection. Russia's economy is struggling but hardly in free fall; the country should be able to muddle through for another two years. But the economic agenda will inevitably rise to the fore after the election, because at that point, the existing model will be close to exhausted.

Turbulence will almost certainly continue to roil the international system after the 2018 election, of course, so the Kremlin might still find opportunities to intensify Russia's activity on the world stage. But without a much stronger economic base, the gap between Russian ambitions and Russian capacities will grow. That could inspire a sharper focus on domestic needs—but it could also provoke even more risky gambling abroad.

"Russia is not angry; it is focusing." So goes a frequently repeated Russian aphorism, coined in 1856 by the foreign minister of the Russian empire, Alexander Gorchakov, after Russia had lowered its international profile in the wake of its defeat in the Crimean War. The situation today is in some ways the opposite: Russia has regained Crimea, has enhanced its international status, and feels confident when it comes to foreign affairs. But the need to focus is no less urgent—this time on economic development. Merely getting angry will accomplish little.

PUTIN'S RUSSIA

How Putin Silences Dissent

Inside the Kremlin's Crackdown

Maria Lipman

In December 2015, the Russian antigraft activist Alexey Navalny released a documentary in which he exposed the corrupt business dealings of the children of Yuri Chaika, Russia's prosecutor general—the top law enforcement official in the country. In the film, Navalny accuses Chaika's son Artem of "continuously exploit[ing] the protection that his father, the prosecutor general of the Russian Federation, gives him to extort from and steal other people's companies." Artem owns a five-star hotel in Greece with his father's deputy's ex-wife, who, according to Navalny, maintains close business ties with the wives of violent gang members in southern Russia. The film includes scenes from the inauguration of the hotel, a grand celebration attended by Russian politicians, businessmen, and pop stars. The documentary also details Artem's involvement in a predatory takeover of a Siberian shipping company in 2002; after speaking out against Artem, the company's former manager was found hanged.

The film has garnered more than 4.6 million views online. In a survey conducted by the Levada Center, an independent Russian polling and research organization, some 80 percent of those who had watched the film or heard about it said they thought Navalny's allegations "appeared true" or were "fully credible." Shortly after the film's release, the Russian documentary film festival ArtDocFest awarded it a special prize, and Dmitry Gudkov, a federal lawmaker, filed a request with the Russian Investigative Committee, the Russian equivalent of the FBI, asking for an investigation into Navalny's allegations.

The characters in this story—a whistleblower, an independent film festival, and an antiestablishment lawmaker—seem to contradict the West's image of President Vladimir Putin's Russia as unforgiving and authoritarian. Yet this is only part of the tale.

The rest is that the Kremlin has persecuted Navalny for years. He has been repeatedly prosecuted on what have appeared to be trumped-up embezzlement charges. He has spent months under house arrest, and although he is not currently imprisoned, he remains on a suspended sentence. His brother, who was named Navalny's codefendant in a sham embezzlement case, has been sentenced to three and a half years in prison, and several of Navalny's coworkers have been threatened or forced to flee Russia.

Navalny's film went viral on the Internet, but Russia's state-controlled national television largely ignored it. Chaika dismissed it as a political attack backed by an American businessman. And Putin's spokesman, Dmitry Peskov, when asked about the film, said its allegations were "of no interest to us

MARIA LIPMAN is Editor in Chief of *Counterpoint*, published by George Washington University's Institute for European, Russian, and Eurasian Studies.

whatsoever," as they concerned Chaika's children, not the prosecutor general himself. Yet in Russia, few believe that Artem became a rich business tycoon simply because he is a talented entrepreneur. An ascent like his takes a special kind of protection, one that his father likely provided. In fact, in 2011, when Artem's name surfaced repeatedly in connection with an investigation of underground casinos in the Moscow region, which operated under the protection of local prosecutors, the case ended with no indictments—apparently thanks to his father's influence.

Gudkov, for his part, has become a one-man opposition. Of the 450 members of the Duma, Russia's parliament, he is the only one who does not pledge full allegiance to Putin. But after reading his request, the Investigative Committee decided to transfer the case to the office of the prosecutor general—that is, to Chaika himself—effectively burying it. No matter how solid the allegations against Chaika's family may be, the Kremlin simply will not rely on the accusations of a liberal activist to hold them to account.

Since the start of Putin's third term in 2012, the Kremlin has grown increasingly intolerant of political and civic activism. But as the economist Sergei Guriev and the political scientist Daniel Treisman wrote in 2015, "new authoritarian" regimes, such as Putin's, "can survive while employing relatively little violence against the public." Instead, they rely on manipulation and intimidation, cultivating a sense that opposing the Kremlin is not just dangerous but also pointless.

So far, these tactics have served the Kremlin well. Now, however, Russia's ongoing economic decline may present an obstacle. The combination of a drop in oil prices and a shortage of investment has already led to a decrease in living standards; unemployment is also likely to rise. This makes it tempting to predict that Putin's regime will soon unravel, but it remains impossible to tell when or how or what will come next.

PUTIN TAKES CHARGE

Back in 1999, Russia's political order was unraveling. A protracted political battle with the Communist opposition had dramatically weakened the Kremlin. Russian President Boris Yeltsin's approval rating had dropped to the single digits, the Russian parliament had accused him of destroying the Soviet Union, and he had narrowly escaped impeachment. In parliamentary elections that year, the pro-Kremlin party faced a coalition of local governors headed by two political heavyweights, former Russian Prime Minister Yevgeny Primakov and Moscow Mayor Yuri Luzhkov. In the end, the Kremlin defeated its challengers, not least thanks to a televised smear campaign orchestrated by Boris Berezovsky, a Russian business tycoon and political operator. Yeltsin stepped down and named Putin his successor.

That election turned out to be Russia's last competitive political campaign at the federal level. Once in office, Putin did everything he could to ensure that the ruling elite would never again risk losing power. The Kremlin subjected television channels to state control and curtailed the power of local governors. In the Duma, the governors' faction was forced to merge with the pro-Kremlin party. The new party, United Russia, became an instrument of the Kremlin. Other parliamentary parties, notably the Communists, reconciled themselves to the Kremlin's dominance.

In consolidating power, the Kremlin exploited the vulnerabilities of potential challengers. Regional governors were corrupt, and the Kremlin seems to have gained their loyalty by threatening them with prosecution; it also took advantage of the incestuous ties between government officials and new business owners, particularly TV magnates. With post-Soviet turmoil, corruption, and economic decline having eroded trust in new institutions, such as the independent media, the Kremlin's move to undermine them met barely any resistance.

These efforts were an impressive and rapid success, especially since the government mostly refrained from the use of force or outright persecution of potential challengers. The arrest of Russia's richest magnate, Mikhail Khodorkovsky, in the fall of 2003 was an exception: unlike other big players in politics and business, who had resigned themselves to the Kremlin's dominance, Khodorkovsky continued to pursue his own agenda. His arrest sent a warning to Russian oligarchs: their billions notwithstanding, the only safe strategy remained unquestioning loyalty to the Kremlin.

Putin's uncontested reelection in 2004 and his thorough elimination of political competition provoked modest protest. Between 2005 and 2008, a handful of activists organized "Marches of the Discontented" in Moscow and other urban centers. Yet organizers were lucky if they could muster a few thousand people; more often, the marches drew just a few hundred.

Compared with the political turmoil and economic hardship of the 1990s, the first decade of this century was a time of relative political stability and growing prosperity, thanks to the high and rising price of oil. By the end of Putin's second term, his approval rating exceeded 80 percent. Term limits forced him to step down in 2008, and he became prime minister, anointing Dmitry Medvedev as his successor. Yet even in his new post, Putin remained the most powerful man in the country.

Medvedev was no reformer, but he was younger, softer, and more technologically savvy than Putin; he adopted the credo "Freedom is better than nonfreedom." The combination of greater liberties, growing prosperity, and the spread of the Internet led to the rise of young educated professionals in Russia's big cities. They turned their backs on the Kremlin and dismissed Kremlin-controlled national television as outdated gibberish for the masses. They immersed themselves in their social networks, in the niche liberal media, and in a Western lifestyle in which charity and volunteer work played an increasing role.

RIPPLES OF PROTEST

By 2010, Russian civic activism was flourishing. Groups organized, for example, to protest against the driving habits of government officials, whose cars came with sirens, flashing blue lights, and government license plates, allowing them to flout traffic laws. Environmentalists waged battles against greedy developers. Navalny gained prominence as an anticorruption blogger. When disastrous forest fires swept central Russia in the summer of 2010,

A most wanted man: police detain Alexey Navalny in Moscow, February 2014

TATYANA MAKEYEVA / REUTERS

young educated urbanites demonstrated remarkable organizational and management skills; their large-scale volunteer operation made up for the government's bungled relief effort.

People also took to social media to expose government hypocrisy and, sometimes, to poke fun at Putin. In August 2010, Putin began a long and highly publicized drive across Siberia at the wheel of a domestically manufactured yellow Lada. State television channels covered the ride extensively. Yet amateur footage by a group of locals revealed that the Lada was actually accompanied by a presidential motorcade of some 100 vehicles, including two spare Ladas.

In 2011, online activists discovered that local election officials were scheming to deliver votes to United Russia in an upcoming parliamentary race. As the vote drew near, many young people volunteered to join election-monitoring teams, broadcasting their findings on social media. The reality was even worse than they had feared. On election day, the young volunteers witnessed large amounts of fraud: ballot stuffing; counterfeited voting registers; and "merry-go-round voting," in which buses drove pro-government voters from one precinct to the next so that they could vote multiple times. In the precincts, election officials and police kicked out those who cried foul. The revelations of cheating triggered a spontaneous protest, which was followed by a series of mass rallies in Moscow and other big urban centers in late 2011 and 2012. Putin had by then announced his intention to return to the presidency, and the protests against the fraud in the 2011 elections swelled into a growing sense of frustration with Putin's viselike grip on Russian politics. The rallies, filled with chants of "Russia without Putin!" were unambiguously political. But the protests did not amount to an opposition movement. Most dismissed the idea of negotiating with the Kremlin, which they saw as immoral and untrustworthy. "Russia without Putin" was merely a slogan: the protesters did not appear to have in mind an alternative candidate of their own.

PUTIN 2.0

Despite the unrest, Putin maintained the support of Russia's conservative majority and easily won reelection in 2012. Following Putin's reelection, the Kremlin abandoned its policy of tolerance. On May 6, the day before Putin's inauguration, an anti-Putin rally that began peacefully ended in clashes with the police and numerous arrests.

State-controlled television channels launched a smear campaign against the protesters, condemning them as pro-Western, unpatriotic, and immoral. National television painted the West as evil and labeled liberals, gays, and recipients of foreign grants as subversive Western agents. Vigilante groups soon started harassing gay activists and disrupting contemporary art exhibitions.

The crackdown had actually begun about two months earlier, when police arrested three members of Pussy Riot, a feminist protest group, for performing an anti-Putin "punk prayer" in Moscow's Cathedral of Christ the Savior. In August 2012, they were sentenced to two years in prison. Meanwhile, authorities prosecuted about 30 participants in the May 6 protest, and many of them were sentenced to prison terms of several years. The police also roughed up and detained sympathizers who gathered outside the courthouse.

Since then, the police have cracked down on unsanctioned protests, routinely detaining and beating participants. Even individual picketers have been targeted. In late 2015, under a new law restricting public assembly, authorities sentenced the peaceful Moscow activist Ildar Dadin to three years in jail for antigovernment street protests, some of which had involved no one but Dadin himself.

The Putin government has stopped short of banning public rallies outright. On several occasions, the Kremlin has even authorized marches and demonstrations, most likely to allow protesters to blow off steam. There have been demonstrations against the Kremlin's ban on the foreign adoption of Russian orphans, for example, and against Russia's annexation of Crimea.

But the sense of joyful defiance that existed in 2011–12 has disappeared, and hardly anyone truly hopes to influence the Kremlin. The protest against the Crimean annexation brought together tens of thousands of people in Moscow: a tiny minority who were excoriated by the overwhelming majority that hailed the annexation.

Perhaps seeking to avoid greater unrest, the Kremlin also decided not to imprison Navalny, who had gained broad popularity during the 2011–12 protests. Despite constant harassment and prosecution, Navalny has remained unintimidated, even arrogant; one year into Putin's third term, he admitted to having presidential ambitions. A few months later, in the provincial city of Kirov, he was convicted and sentenced to five years in prison on seemingly trumped-up embezzlement charges. This news provoked protests in many Russian cities: in Moscow, a few thousand people gathered in the city center. The police dissolved the crowd and detained several dozen participants. But in an unexpected turn of events, Navalny and his codefendant were released the next day on a suspended sentence. Navalny was even allowed to run for mayor of Moscow in 2013. Thousands of enthusiastic young volunteers worked for his campaign, and although he lost to the pro-Kremlin incumbent, he won an impressive 27 percent of the popular vote. Yet as soon as the race was over, Navalny was once again harassed and prosecuted.

THE CRACKDOWN CONTINUES

The crackdown that followed Putin's return to the Kremlin in 2012 extended to the liberal media, which had until then been allowed to operate fairly independently. The Kremlin relied on loyal media owners to shut down or reformat outlets the government did not approve of and on advertisers, who readily refused to conduct business with those they deemed disloyal. In 2014, cable TV operators, apparently acting on instructions from the Kremlin, terminated their contracts with the liberal Moscow channel TV Rain. It now operates solely online, and it has seen its audience drop from 12 million viewers to just over 70,000 paid subscribers.

The government has likewise stepped up measures to control the Internet. Russia does not have a Chinese-style firewall, and the Russian Internet remains a relatively free realm for public discussion. But the state is steadily expanding its interference: monitoring Web traffic, blacklisting websites, and employing teams of pro-Putin online trolls to post anti-American or anti-Ukrainian messages.

In the past year, authorities sentenced several bloggers to jail for posting "extremist" content; in most cases, the posts in question criticized Russia's policies in Ukraine.

By 2013, the Kremlin had launched a campaign against foreign-funded nongovernmental organizations, enacting a law that forces such organizations to brand themselves as "foreign agents" if they engage in "political activity," which is loosely defined. Organizations that refuse to accept this insulting label—the most obvious Russian connotation of "foreign agent" is "spy"—can expect significant fines. Since the law went into effect, more than a dozen such groups have had to shut down. With foreign funding all but outlawed, nongovernmental organizations that remain independent from the Kremlin find themselves in dire straits, unable to rely on donations from Russian businesses, which do not want to be seen supporting "foreign agents." Crowdfunding is still not a viable alternative, as those donations are usually small and cannot replace large institutional grants.

In recent months, the Kremlin's tactics have escalated. In February, two organizations were shut down by court order: one monitored elections; the other provided legal advocacy.

UNFAIR ELECTIONS

In the Kremlin's quest to consolidate power, nothing has served it so well as the annexation of Crimea. In the wake of the annexation, Putin's approval rating immediately shot up, and as of February 2016, it had remained over 80 percent for 23 months. Many Russians see Putin's actions in Crimea as righting a historical injustice and reclaiming Russia's status as a world power. Those who disagree are viewed as unpatriotic enemies of the motherland.

The original euphoria over Crimea has subsided, but the surge of nationalism it generated has been fueled by the Russian-backed war in eastern Ukraine and the accompanying anti-Ukrainian and anti-Western propaganda, Russia's military operation in Syria, and tensions with Turkey. The Russian people are not optimistic about Russia's economic prospects, but never since the collapse of the Soviet Union have they been so proud of Russia's military might and global influence. Many Russians believe that Russia's military rivals that of the United States and that Russia is right to confront the West. Many also blame the West for Russia's current economic troubles.

The Kremlin will do its best to maintain that view as it navigates a legislative election year with a rapidly deteriorating economy. The government also benefits from the sense that Putin is Russia's only option. The Kremlin's opponents, such as Navalny, may enjoy credibility when they criticize Moscow's corruption, but almost no one sees them as viable political alternatives.

Still, with the price of basic goods rising and average incomes stagnating, the forthcoming parliamentary elections are a risky affair for the Kremlin. Half of the Duma's 450 deputies will be elected on party slates, making them more or less safe for United Russia. But the other 225 deputies will be elected individually in local districts, and the Kremlin is keen to bar opposition candidates. Yet rigging the elections is not an option: the Kremlin does not want a replay of 2011, when election fraud triggered mass protests.

Instead, the Kremlin is working to remove unwanted candidates before election day. This is not a new strategy. In 2015, in the campaign for the regional legislature in Novosibirsk, Leonid Volkov, the campaign manager for a tiny anti-establishment party, made his candidates' campaigns as transparent as possible to prove his party's compliance with election rules. Still, officials found reasons to bar his candidates, using pretexts such as typos in voter lists. Appeals to state authorities and even to Russia's Supreme Court proved pointless, as did a hunger strike by Volkov and several of his candidates.

To those who remain undeterred, a recent episode concerning a vocal Putin critic, former Prime Minister Mikhail Kasyanov, acts as a warning. In February, when Kasyanov arrived in Nizhny Novgorod to meet with local constituents, members of a nationalist organization brutally harassed and insulted him, apparently with the Kremlin's blessing. Reporters for NTV, one of Russia's three major national television channels, filmed the whole scene.

In January, the Kremlin imposed additional constraints on election monitoring: reducing the number of volunteer observers representing a party or candidate to just two at every precinct and restricting journalists' access to precincts. And to neutralize critically minded constituents in large urban centers, Moscow has merged city voting districts with adjacent rural ones so as to dilute the urban vote with the more conservative and loyal rural one.

RUSSIA WITHOUT PUTIN?

In February 2015, Boris Nemtsov, a veteran opposition figure, was assassinated in downtown Moscow. Russian police have arrested five men for the murder, but Nemtsov's family lawyer believes that high-level government officials have prevented investigators from digging too deep.

Whoever the perpetrators were, it is clear that there are forces within Russia ready to kill opponents of the Kremlin. A few days after Nemtsov's assassination, tens of thousands of people joined a mourning march in Moscow; on the one-year anniversary of his death, more than 24,000 people marched again. City authorities sanctioned both memorial events. But they have also repeatedly destroyed an improvised memorial on the site of the murder—a reminder to activists and their sympathizers that they are not welcome.

Activism hasn't quite died altogether, however. Civic projects are under way, especially in Moscow, where there are a broad range of charity initiatives, public lectures, and art and book festivals. Most of them rely, at least partly, on crowdfunding, although individual donations may shrink as a result of the declining economy. So far, the Kremlin has not interfered, perhaps deeming such small-scale projects innocuous.

Navalny's antigraft projects also rely on crowdfunding, although his donors try to avoid publicity. His activity is not regarded as innocuous, yet his investigations have had little true impact on the workings of the Kremlin.

Up to this point, the Kremlin's "new authoritarian" practices have proved fairly effective. Four years after tens of thousands of people chanted "Russia without Putin!" Putin's power remains unchallenged. Russia may have what *The Washington Post* recently called a "motley band of oppositionists," but there is no real political opposition. These days, the vast majority of Russians cling to stability, rallying around Putin and adapting to lower living standards.

Pollsters and commentators often predict that Putin's regime has just one or two years left, that Russia's economic woes, combined with its costly and adventurous foreign policy, will soon spell its demise. Yet such doomsayers typically avoid explaining what such a collapse would entail, and Russia's long-term prospects remain unclear. This should not come as a surprise: Putin does not appear to follow a master plan, instead responding to major developments by finding ad hoc solutions.

Putin may no longer have the blessing of high energy prices, but he does have a public ready to accept that politics is not meant to be by the people or for the people. Socioeconomic protests have become more frequent, but they are invariably limited, reduced to one locality or one group. Today's protesters seem much more likely to appeal to Putin than to seek the support of their fellow countrymen or political assistance from oppositionists.

If Putin's approval wanes, however, the prospects for his regime will be grimmer. Russia's elite is torn by internecine feuds, but everyone pledges allegiance to Putin—so long as he remains the invincible supreme leader. If not, an open rivalry may emerge among the various elite factions, not least between proponents of more repressive and isolationist policies and advocates of development-oriented reforms. Such a conflict could mobilize the public at large.

Yet those anticipating the regime's demise should not underestimate Russia's capacity to muddle through, accepting its fate as it lags further behind developed nations economically, technologically, in health and education, and in quality of life.

As for the expectations of Russians themselves, when asked by the Levada Center in December 2015 how long it would take for them to run out of patience, 21 percent of those polled said "a few years," 14 percent said "very long," and the most common answer, at 30 percent, was "nobody knows—everything can explode in a most unexpected way."

Why Putin Took Crimea

The Gambler in the Kremlin

Daniel Treisman

Russian President Vladimir Putin's seizure of the Crimean Peninsula from Ukraine in early 2014 was the most consequential decision of his 16 years in power. By annexing a neighboring country's territory by force, Putin overturned in a single stroke the assumptions on which the post–Cold War European order had rested.

The question of why Putin took this step is of more than historical interest. Understanding his motives for occupying and annexing Crimea is crucial to assessing whether he will make similar choices in the future—for example, sending troops to "liberate" ethnic Russians in the Baltic states—just as it is key to determining what measures the West might take to deter such actions.

Three plausible interpretations of Putin's move have emerged. The first—call it "Putin as defender"—is that the Crimean operation was a response to the threat of NATO's further expansion along Russia's western border. By this logic, Putin seized the peninsula to prevent two dangerous possibilities: first, that Ukraine's new government might join NATO, and second, that Kiev might evict Russia's Black Sea Fleet from its longstanding base in Sevastopol.

A second interpretation—call it "Putin as imperialist"—casts the annexation of Crimea as part of a Russian project to gradually recapture the former territories of the Soviet Union. Putin never accepted the loss of Russian prestige that followed the end of the Cold War, this argument suggests, and he is determined to restore it, in part by expanding Russia's borders.

A third explanation—"Putin as improviser"—rejects such broader designs and presents the annexation as a hastily conceived response to the unforeseen fall of Ukrainian President Viktor Yanukovych. The occupation and annexation of Crimea, in this view, was an impulsive decision that Putin stumbled into rather than the careful move of a strategist with geopolitical ambitions.

Over the past two years, Putin has appeared to lend support to all three interpretations. He has suggested that Ukraine's accession to NATO would have been intolerable and has also claimed that Crimea's history had made the region "an inseparable part of Russia," "plundered" from the country after the Soviet Union's disintegration. Yet Putin also told me, at a reception in Sochi in October 2015, that the operation to seize the peninsula was "spontaneous" and was "not at all" planned long in advance. (Putin's other explanations for the intervention—that he ordered it to protect Crimea's Russian population from Ukrainian nationalists and to respect Crimeans' right to self-determination—should be taken less seriously, since the nationalist threat in Crimea was largely invented and since Putin had shown little interest in self-determination for the peninsula for most of his previous 14 years in power.)

DANIEL TREISMAN is Professor of Political Science at the University of California, Los Angeles, and Director of the Russia Political Insight project. Follow him on Twitter @dstreisman.

So what was the annexation—a reaction to NATO's expansion, an act of imperial aggression, or an impromptu response to an unexpected crisis? The truth might involve elements of more than one theory, and some of the details remain unknown. Nevertheless, information that has surfaced over the past two years and insights from recent interviews in Moscow suggest some important conclusions: Putin's seizure of Crimea appears to have been an improvised gambit, developed under pressure, that was triggered by the fear of losing Russia's strategically important naval base in Sevastopol.

NATO's enlargement remains a sore point for Russian leaders, and some in the Kremlin certainly dream of restoring Russia's lost grandeur. Yet the chaotic manner in which the operation in Crimea unfolded belies any concerted plan for territorial revanche. Although this might at first seem reassuring, it in fact presents a formidable challenge to Western officials: in Putin, they must confront a leader who is increasingly prone to risky gambles and to grabbing short-run tactical advantages with little apparent concern for long-term strategy.

NATO NYET!

Consider first the notion that Putin ordered the seizure of Crimea to prevent Russia's military encirclement by NATO. It is clear that enlarging NATO without making more than token attempts to integrate Russia helped poison the relationship between Moscow and the West over the past two decades, just as it is well known that Russia's leaders are determined to prevent Ukraine from becoming a NATO member. But that does not mean that resisting NATO's expansion was what motivated Putin in this case.

The biggest problem with the theory that Putin seized Crimea to stop Ukraine from joining NATO is that Ukraine was not heading toward NATO membership when Putin struck. In 2010, in large part to improve relations with Russia, the Yanukovych government had passed a law barring Ukraine from participation in any military bloc. In subsequent years, Kiev settled instead for partnership with the alliance, participating in some of its military exercises and contributing a ship to NATO antipiracy operations—an outcome that Russia seemed to accept. Indeed, when Putin, justifying the intervention in March 2014, claimed that he had "heard declarations from Kiev about Ukraine soon joining NATO," he excluded an important detail: all the recent public statements to that effect by Ukrainian politicians had come only after Russian troops had already appeared in Crimea.

Even if Ukrainian officials had wanted to join NATO after Yanukovych's ouster, the alliance was not about to let the country in. Putin had already won that battle at a NATO summit in 2008, when the alliance had chosen not to move forward on Ukrainian or Georgian membership. British, French, and German officials had argued that the two countries remained too unstable to be put on a path to joining the alliance and that doing so would also unnecessarily antagonize Moscow. Although NATO did not rule out Ukraine's eventual accession, German Chancellor Angela Merkel remained opposed to practical steps in that direction, and U.S. President Barack Obama, unlike his predecessor, George W. Bush, took no action to advance Kiev's

Nothing to see here: a Russian serviceman in Crimea, March 2014

DAVID MDZINARISHVILI / REUTERS

membership. What is more, in October 2013, just months before Russia's annexation of Crimea, Anders Fogh Rasmussen, NATO's secretary-general, announced unequivocally that Ukraine would not join the alliance in 2014. There was little reason to expect that to change anytime soon.

Of course, Putin might have believed otherwise. If that were the case, however, he would probably have raised the issue with Western leaders. He seems not to have done so, at least not with Obama, according to Michael McFaul, who served as the president's special assistant on Russia from 2009 to 2012 and as the U.S. ambassador in Moscow from 2012 to early 2014. During that period, McFaul was present for all but one of the meetings between Obama and Putin or Dmitry Medvedev, who served as Russia's president from 2008 to 2012; while he was serving in Washington, McFaul also listened in on all the phone conversations Obama had with either Russian leader. In a speech last year, McFaul said he couldn't "recall once that the issue of NATO expansion came up" during any of those exchanges.

If Putin's goal was to prevent Russia's military encirclement, his aggression in Ukraine has been a tremendous failure, since it has produced exactly the opposite outcome. Largely to deter what it perceives as an increased Russian threat, NATO has deepened its presence in eastern Europe since Moscow's intervention, creating a rapid-reaction force of 4,000 troops that will rotate among Bulgaria, Estonia, Latvia, Lithuania, Poland, and Romania and stationing four warships in the Black Sea. In February, the White House revealed plans to more than quadruple U.S. military spending in Europe.

Last January, I asked a source close to Oleg Belaventsev, the commander of

Russia's military operation in Crimea, if Russian officials had been worried about Ukraine joining NATO in the months preceding the intervention. "They weren't afraid of Ukraine joining NATO," the source replied. "But they were definitely worried that the Ukrainians would cancel the [Russian] lease on [the naval base in] Sevastopol and kick out the Black Sea Fleet."

This seems plausible, since the Black Sea Fleet is crucial to Russia's ability to project force into the Black and Mediterranean Seas and since many of Ukraine's opposition leaders had criticized Yanukovych for extending Moscow's lease on the base. Yet if securing the base was Putin's main concern, as seems likely, the puzzle is why he chose such a risky strategy. With a contingent of around 20,000 well-armed troops in Crimea and a mostly pro-Russian population on the peninsula, it would have been difficult for Ukraine to evict Russia from Sevastopol, and in the past, Moscow had always found ways to protect its interests in the region without using force. Annexing the territory—at the cost of international isolation, economic sanctions, the reinvigoration of NATO, and the alienation of most of the Ukrainian population—seems like an extreme reaction to a manageable threat. Before the operation in Crimea, Putin's decisions could generally be rationalized in terms of costs and benefits, but since then, his foreign policy calculus has been harder to decipher.

IMPERIAL DELUSIONS?

For those who see Putin as an imperialist, Russia's moves in Crimea are easy to explain. After all, Putin has notoriously characterized the collapse of the Soviet Union as "the greatest geopolitical catastrophe of the century," has claimed that "Ukraine is not even a state," and has a history of meddling in countries on Russia's periphery. In 2008, the same year that Russian tanks rolled into Georgia to protect the separatist enclaves of Abkhazia and South Ossetia, Russian officials were reportedly distributing Russian passports to Crimean residents, creating an apparent pretext for an invasion in their defense.

Other, more specific signs also seem to show that Moscow was preparing to seize Crimea in the six months before Yanukovych's fall. Vladislav Surkov, a senior Putin adviser, repeatedly visited Kiev and Simferopol, the Crimean capital, in the fall and winter of 2013–14, in part to promote the construction of a bridge across the Kerch Strait to connect southern Russia and Crimea—an essential transportation link in case of annexation. Around the same time, teams of Russian police and secret service officers were seen in Kiev.

Meanwhile, Vladimir Konstantinov, the chair of the Crimean parliament, was making frequent trips to Moscow. On one such visit, in December 2013, according to the Russian journalist Mikhail Zygar, he met with Nikolai Patrushev, the secretary of Russia's Security Council and the Kremlin's top security official. According to Zygar's report, Patrushev was "pleasantly surprised" to learn from Konstantinov that Crimea would be ready to "go to Russia" if Yanukovych were overthrown. Just before Russia's intervention, Konstantinov was back in Moscow, meeting with senior officials.

Other evidence also suggests a long-standing Russian plot to acquire the peninsula. In February 2014, according to the newspaper *Novaya Gazeta*, a memo circulated in Russia's executive branch proposing the annexation of Crimea and other parts of eastern Ukraine if Yanukovych fell. With Yanukovych gone, the memo suggested, Ukraine would split into western and eastern parts, and the EU would swallow up the west. Moscow would need to quickly promote referendums on the issue of Russian annexation in the pro-Russian regions in the country's east.

Yet on closer examination, the theory that Putin had long intended to take Crimea doesn't quite hold up. Consider Surkov's frequent trips to the peninsula. What the Putin adviser discussed with local leaders on these visits remains unknown. If Surkov was preparing for the region's annexation, however, Putin's next move seems bizarre. Instead of sending Surkov to Simferopol to oversee Russia's intervention, Putin took him off the case in late February; Surkov apparently spent most of March in Moscow, with enough free time to attend a gallery opening and even take a vacation in Sweden with his wife. Zygar has suggested that Surkov's real assignment in Ukraine had been not to prepare for the annexation of Crimea but to keep Yanukovych in power—a task at which he failed, much to Putin's displeasure. As for the police and secret service teams seen around Kiev, their role was likely to advise Yanukovych's staff on how to crush antigovernment protests in the capital; had they been planning for an operation in Crimea, they would have been sent there instead.

Indeed, many details that at first seem to indicate careful Russian preparation actually point to the absence of any long-held plan. For example, if Moscow had really been scheming to annex Crimea, it would not have merely discussed a bridge over the Kerch Strait with Ukrainian officials; it would have built one. Instead, the negotiations had crept along for more than ten years, and between 2010, when Yanukovych and Medvedev agreed to build the bridge, and 2014, Russia did not even manage to complete a feasibility study for the project.

That a document as speculative as the pro-annexation memo revealed by *Novaya Gazeta* was circulating less than a month before the operation, meanwhile, suggests that Putin had not adopted a concrete plan by February 2014. And why was Patrushev, a senior official and reportedly one of the strongest backers of intervention in Ukraine, "surprised" to hear that the Crimean elite would approve of annexation? If the Kremlin had been contemplating an occupation, Patrushev would have seen intelligence reports to that effect by the time of his meeting with Konstantinov in December 2013.

In fact, until shortly before it happened, it appears that Putin did not expect Yanukovych to fall from power. If he had, he likely would have found some pretext to postpone the disbursement of a $3 billion loan that Russia had promised the Yanukovych government in December 2013. He didn't, of course, and Ukraine's new government defaulted on the loan in December 2015. As the political consultant and former Kremlin official Aleksei Chesnakov told me, "It's not Putin's style to make such presents."

WINGING IT

The clearest evidence against a consistent plan for territorial expansion is the chaotic way in which the Crimean intervention unfolded. Although the military component of the operation ran smoothly, its political aspects at times revealed an almost farcical lack of preparation.

Putin has said that he first instructed aides to "start working on returning Crimea to Russia" on the morning of February 23, after Yanukovych fled Kiev. In fact, according to the source close to Belaventsev, the commander of the Crimean operation, Moscow put Russian special forces in the southern port city of Novorossiysk and at the Black Sea Fleet's base in Sevastopol on alert on February 18, as violence flared up between police and antigovernment protesters in Kiev. Two days later, on February 20, Russian troops received an order from Putin to blockade Ukrainian military installations in Crimea and prevent bloodshed between pro-Russian and pro-Kiev groups protesting on the peninsula. But they did not begin to do so until February 23, two days after Yanukovych left Kiev. The earliest steps in the operation, in other words, appear to have been tentative: Putin could have called off the mission if the agreement that Yanukovych signed with opposition leaders and EU foreign ministers on February 21 to hold early elections had stuck.

Belaventsev arrived in Crimea on February 22, according to the source. A longtime aide to Russian Defense Minister Sergei Shoigu, Belaventsev was unfamiliar with Crimea's political scene, and after consulting locals, he persuaded the incumbent prime minister, an unpopular Yanukovych appointee, to step down. To replace him, Belaventsev chose an elderly Communist, Leonid Grach, who had been known in Moscow since the Soviet era.

What Belaventsev didn't know was that Grach had alienated most of Crimea's power brokers over the years—an oversight that Konstantinov, the leader of the Crimean parliament, made clear to Belaventsev after he had already offered Grach the position. To his embarrassment, Belaventsev had to call Grach to rescind the offer of the premiership only a day after he had made it. To head the regional government, Belaventsev then turned to Sergei Aksyonov, a local pro-Russian businessman and former boxer known to locals by the underworld nickname "Goblin."

Even more surprising, in the days that followed, the Kremlin appeared not to know what it wanted to do with Crimea. On February 27, the region's parliament voted to hold a referendum on May 25 to ask residents whether they agreed that Crimea was "a self-sufficient state and . . . is part of Ukraine on the basis of treaties and agreements"—in other words, whether they thought that the region should have greater autonomy but remain in Ukraine. A week after the beginning of the operation, Putin had not yet decided on annexation.

On March 1, Crimea's parliament rescheduled the referendum from May 25 to March 30. Then, on March 6, the deputies advanced the date by another two weeks, and this time they rewrote the referendum question to ask whether residents supported the unification of Crimea with Russia instead of whether they supported autonomy within Ukraine.

Why did Putin raise the referendum's stakes from autonomy to annexation? One reason was pressure from pro-Russian Crimean leaders, including Konstantinov, who feared ending up in a semi-recognized statelet like Abkhazia or South Ossetia, shunned by Ukraine and the West and too small to thrive economically. More important, having deployed Russian forces throughout the peninsula, Putin found himself trapped. To simply withdraw, allowing Ukrainian troops to retake Crimea and prosecute Moscow's supporters there, would have made him look intolerably weak, and after the return of Ukrainian control, Kiev might well have canceled Russia's lease on the naval base in Sevastopol. The only way Russia could have safely pulled out of Crimea would have been if the West had recognized an eventual vote for Crimean autonomy as legitimate and persuaded the Ukrainian government to respect it. Western leaders, outraged by Russia's invasion, had made clear that they would do nothing of the sort.

For Moscow to back mere autonomy for the peninsula without Western support would have been dangerous, since Russia would have had to defend Crimea's pro-Russian government against any attempt by Kiev to use the 22,000 Ukrainian troops stationed there to restore order. If, by contrast, Russia had chosen to expel the Ukrainian forces and defend the region against a counteroffensive, it would have aroused nearly as much hostility in the West as it would if it took control of the territory outright. By March 4, unable to find a viable exit strategy, the Kremlin had decided on annexation.

ON S'ENGAGE, ET PUIS . . .

All this improvisation makes it hard to see Russia's intervention in Crimea as part of a systematic expansionist project. Any halfway competent imperialist would have known whom to appoint as the local satrap after the invasion and would already have chosen whether to offer residents a referendum on autonomy or annexation. And a resolute revanchist would have made sure to build a bridge to the target territory, rather than squandering ten years in fruitless discussions.

This is not to say there are not factions in the Kremlin with imperial appetites. Putin himself may share such impulses. It is likewise true that Russia's leaders detest NATO's enlargement and exploit it as a rhetorical rallying point. Yet such appetites and concerns had not jelled into any coherent plan for an invasion of Crimea. Until shortly before Putin's commandos struck, the Kremlin had been preoccupied with events in Kiev.

If Putin's main concern was Moscow's hold on Sevastopol, this suggests several important points. First, the disastrous turn in relations between Russia and the West over the past two years might have been avoided had Ukrainian officials, as well as opposition leaders and their Western backers, consistently promised to respect the agreement that extended Russia's lease on the base until the 2040s. To be sure, this agreement was highly unpopular in Ukraine. But had Ukrainians known that the alternative would be the loss of Crimea and a bloody war in the country's east, they might have settled for the indignity of hosting a foreign power's forces.

Next, it suggests that Putin has become willing in recent years to take major strategic risks to counter seemingly limited and manageable threats to Russian interests. By deploying special forces in Crimea without planning for the region's political future, Putin showed that he is not just an improviser but also a gambler. Indeed, encouraged by the high domestic approval ratings his venture secured, Putin has continued to roll the dice, supporting the pro-Russian separatists in Donetsk and Luhansk, bombing antigovernment rebels in Syria, and escalating a confrontation with Turkey over the downing of a Russian warplane in November.

The importance of Sevastopol in the case of Russia's intervention in Crimea demonstrates the need to accurately identify Russia's key strategic assets, as seen by Putin, if the West is to anticipate his moves in future crises. The Baltic states contain no Russian bases that might invite a similar intervention. In Syria, the port of Tartus—Russia's only naval outpost in the Mediterranean—is probably too small and poorly equipped to matter much, although the Russian military might have plans to expand it. A greater threat could arise were Turkey to attempt to close the Turkish Straits, which connect the Black and Mediterranean Seas, to Russian ships. Under the 1936 Montreux Convention, Turkey has the right to deny passage through these straits to military vessels from countries with which it is at war or in imminent danger of conflict. Were Ankara to take this step, it would make it much harder for Russia to provide naval support to military operations in the Mediterranean and the Middle East, such as its recent intervention in Syria, and that might provoke a furious and possibly disproportionate Russian response. That both Putin and Turkish President Recep Tayyip Erdogan need to appear strong internationally for domestic political reasons renders the antagonism between them alarming, so Western leaders should make clear to Ankara that they would not support closing the straits if Russian-Turkish tensions rose further.

Putin's recent penchant for high-stakes wagers may prove even harder for Western leaders to handle than a policy of consistent expansionism. A rational imperialist can be contained, but the appropriate response to a gambler who makes snap decisions based on short-term factors is less clear. In both Crimea and Syria, Putin has sought to exploit surprise, moving fast to change facts on the ground before the West could stop him. By reacting boldly to crises, he creates new ones for Russia and the world.

ESSAYS

LUCY NICHOLSON / REUTERS

Return to Table of Contents

America and the Global Economy

The Case for U.S. Leadership

Jacob J. Lew

When U.S. President Barack Obama joined other global leaders at the G-20 summit in Turkey in November 2015, the United States was in the final stages of a multiyear effort to secure the approval of a set of important reforms to the International Monetary Fund. The reforms, negotiated in 2010 with strong U.S. leadership, were designed to double the organization's core financial resources to combat financial crises and to modernize its governance by increasing the voting shares of emerging-market economies while maintaining a decisive U.S. voice. But their implementation had been on hold for several years, awaiting approval from Congress. Christine Lagarde, the IMF's managing director, spoke for many when she opened the meeting in Turkey by saying she prayed that the United States would approve the reforms by the end of the year. Obama responded with a mix of levity and seriousness. "You don't have to pray, Christine," he said. "It will get done."

Indeed, a few weeks later, Congress passed the necessary legislation, and by February 2016, the reforms had gone into effect. Their implementation not only marked a financial and institutional watershed in the IMF's long history. It also illustrated a distinctive feature of how the United States has exercised economic leadership by expanding the number of nations with an ever-greater stake in the success of a rules-based global system that benefits all.

Yet it is worth asking: Why was it so hard to win congressional support that it led some to believe that divine intervention was required? After all, the IMF has embodied U.S. leadership since its conception

JACOB J. LEW is U.S. Secretary of the Treasury.

in 1944. Along with the World Bank and the General Agreement on Tariffs and Trade (and its successor, the World Trade Organization), the IMF has provided the underlying infrastructure of a global economic system that has enabled economies to rise from the ashes of war, created the jobs and rising incomes that have produced a global middle class, and lifted hundreds of millions of people out of poverty.

But the difficulty in securing approval should not have been a complete surprise. The historical ambivalence of the United States toward global engagement is a thread that runs through American history—from George Washington's Farewell Address, to the Senate's rejection of the League of Nations after World War I, to the initial reluctance of the United States to enter World War II, and to the difficult process of winning congressional support for the postwar economic system itself. What's more, Congress was considering the IMF reforms at a time when decades of stagnating wages for lower-skilled workers and rising income inequality had heightened anxieties about trade and the global economy. Making the case for global engagement against this backdrop requires taking a long-term view of the nature of U.S. economic power in a rapidly changing world.

However, making this case is exactly what those who care about U.S. leadership in the world must do. History has shown that U.S. economic leadership is vital to the well-being of American workers and families, as well as to the ability of the United States to project its values and achieve its larger foreign policy objectives. Sustaining U.S. leadership and adapting it to the challenges of our time remain indispensable. U.S. influence in a changing world will increase as the United States shares with emerging economies such as China both the benefits and the responsibilities of managing the global economic and financial system.

FOLLOW THE LEADER

The seven decades following World War II have produced the greatest gains in living standards in history. Globally, real per capita income has quadrupled since 1950, raising living standards for billions of people, extending life expectancies, and expanding access to education. The benefits of sustained growth have also been geopolitical. The dynamism of economies in North America, Western Europe, and East Asia was integral to the triumph of market-based democracies in the Cold War.

Clear rules for global economic relations create opportunities and incentives to innovate, invest, and work—the critical drivers of economic progress. History shows that the absence of a durable framework not only squanders untapped potential during good times but also creates grave risks during turbulent times. The breakdown of international cooperation in the 1930s—when countries took unilateral actions to secure short-term parochial advantages to the detriment of others—perpetuated the Great Depression.

The Bretton Woods system of cooperation, which the United States advanced in the postwar years, has evolved and endured by providing a foundation for mutual economic gains that would not be achievable by individual countries acting on their own. Such a system of rules and standards based on mutual responsibility does not automatically enforce itself; it requires leadership, a role that has historically been played by the United States. It also requires constant management and improvement, to raise standards and create better mechanisms to ensure that countries keep their commitments, refrain from unfair competitive behavior, and cooperate to confront new challenges. When the system is working, the stability and predictability it provides encourage countries—even commercial and geopolitical competitors—to adhere to a common set of norms and principles, because doing so is in their long-run economic interests.

The United States was present at the creation of this ambitious system. And a long line of Republican and Democratic administrations with bipartisan support from Congress have been integral to adapting it to new challenges, as well as supplementing it with bilateral and multilateral tools, such as the G-7 and the G-20, to advance its underlying goals. The United States has worked with its partners to promote economic development, strengthen global financial regulation, and combat financial crimes from money laundering to terrorist financing. Using mechanisms such as the IMF and the G-20, in conjunction with U.S. legislation such as the Trade Facilitation and Trade Enforcement Act of 2015, this system has helped level the playing field in international trade and prevent unfair currency practices aimed at gaining commercial advantage.

International economic cooperation has delivered benefits to the United States and other countries that would have been impossible to attain otherwise. A major reason that the global financial crisis that began in late 2007 never turned into a second Great Depression is that the United States and other countries coordinated their efforts through the IMF and the G-20. Avoiding the downward spiral of protectionism and predatory macroeconomic policies that characterized previous eras, the world's major economies—the United States, the eurozone, Japan, and China—launched simultaneous economic stimulus programs and mobilized financial assistance to help vulnerable parts of the global system. The episode represented just one of many examples of how economic cooperation makes the American people and others around the world more prosperous and secure.

BENEFITS AND RESPONSIBILITIES

As the world's leading economy, the United States has nurtured and strengthened this framework of economic cooperation. Over the past few years alone, it has used this system to work with partners to marshal billions of dollars in financial and technical assistance to advance important U.S. goals. The IMF, at the suggestion of the United States, was a first responder to the fiscal stress caused by the Ebola epidemic in West Africa in 2014. That same year, it was also the first responder in supporting a reform-oriented government in Ukraine with $17 billion in urgent support, the initial tranche of which was delivered within weeks of Russia's aggression in Crimea. The scale and speed of this assistance simply would not be possible if the United States had to act alone or stitch together donor contributions in an ad hoc manner. The international financial institutions amplify U.S. influence on the global stage.

By working closely with partners to implement financial sanctions, the United States has also demonstrated how to use the global financial architecture to persuade disruptive actors to abandon behavior that threatens peace and security. An unprecedented coalition imposed sufficient financial pressure to win major nuclear concessions from Iran, and the U.S. Treasury and other agencies are still working closely with allies to impose costs on Russia for its actions in Ukraine and to move against entities that are abetting North Korea's nuclear violations. The effective use of these tools has given future U.S. presidents and other leaders more and better options for confronting security threats short of using military force.

The ability of the United States to mobilize the international community and sustain the commitment of other nations to the global financial architecture requires the judicious exercise of power. In the years after World War II, it was natural for the United States, which had the world's largest economy and the only currency that could command sufficient trust as a global reserve asset, to take on the mantle of global economic leadership. And although today there is still no immediate alternative, it would be a mistake to take this dominance for granted. The durability of U.S. leadership depends not just on the economic heft of the United States but also on the manner in which it wields power in international institutions, forges key relationships, and manages those occasions on which it must act unilaterally to protect its core interests.

It is important to keep in mind how the United States has maintained its preeminence even as so much has changed since World War II. After the war, the United States accounted for the dominant share of global GDP and nearly all of the world's hard currency reserves. Today, it accounts for less than a quarter of global GDP. Yet U.S. leadership has endured, in part because American principles and values are embedded in the international economic framework. The United States has encouraged other countries to have a stake in the success of this system and a voice in how it is managed, so that its institutions continue to meet the needs of a transforming global economy.

The international financial institutions amplify U.S. influence on the global stage.

That is why the Obama administration has made it a priority to modernize the IMF's governance structure and to ensure the organization has sufficient resources. And that is why since becoming treasury secretary in 2013, I have held dozens of conversations with Republican and Democratic leaders in both the House and the Senate to secure congressional approval for these reforms. Key to making the case was explaining how the reforms were critical to sustaining the leadership of the United States on the global stage and its ability to pursue objectives in such places as Ukraine. By underscoring the U.S. commitment to an IMF that is evolving to reflect the changes in the global economy, the United States promotes incentives for emerging countries to remain committed to a system of norms that reflect American values.

As other countries gain greater voice in the international system, they also must accept greater responsibilities. A major one is to engage in responsible foreign exchange practices. Currency fluctuations are a normal and even desirable attribute of the global economy. When the values of currencies are allowed to move according to market forces,

Jerusalem Center for Public Affairs

Israeli Security, Regional Diplomacy and International Law

Read these reports at *www.jcpa.org*

The Knife and the Message: The Roots of the New Palestinian Uprising

Hirsh Goodman and Yossi Kuperwasser (eds.)

A carefully calibrated policy of incitement has brought the Israeli-Palestinian conflict to a new level, one that generates terror without fingerprints, but which adroitly serves Fatah's strategy of an endless war of attrition against Israel.

Video: As the Mideast Descends into Chaos, Israel Must Have Defensible Borders

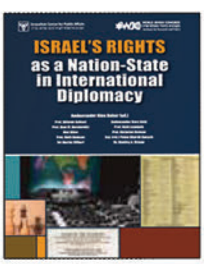
YouTube.com/user/TheJerusalemCenter

The Middle East is imploding in waves of violence whose impact has reached Israel. Israel must have defensible borders to protect itself against a broad range of current and future threats from radical Islamist forces.

Jerusalem: Delusions of Division

Nadav Shragai

Dividing Jerusalem and subtracting its Arab neighborhoods is likely to cause much worse security problems and hamstring the work of Israeli security forces in thwarting Palestinian terrorist attacks. Moreover, over the course of 49 years numerous patterns of Jewish-Arab cooperation have emerged in the city. Dissolving those patterns of unity would clearly damage the existing urban fabric.



Israel's Rights as a Nation-State in International Diplomacy

Amb. Alan Baker (ed.)

A concerted campaign is being waged against Israel to question its very legitimacy in virtually every aspect of its historical, political, and cultural life, with the aim of undermining the very foundations of Israel's existence. This book explains clearly why the Jewish people deserve a state of their own and refutes all the major claims against Israel's rights.

the global economy can better adapt to changes in relative economic performance among countries. What is unacceptable, however, is intervention in foreign exchange markets in order to gain a competitive advantage in trade or impede adjustments in the balance of payments. Competitive devaluation represents a beggar-thy-neighbor fight for a shrinking global pie, not a pathway to stronger global growth.

Strong multilateral institutions such as the IMF and the G-20 are important vehicles for reinforcing norms against predatory currency practices and for mobilizing multilateral pressure against countries that engage in them. At the G-20 meeting in Shanghai this February, members not only committed to using all tools of policy—monetary, fiscal, and structural—to boost economic growth in a time of weak demand. They also committed to refrain from competitive devaluation and, for the first time, to consult on foreign exchange markets to avoid surprises that could threaten global financial stability.

The manner in which the United States has discharged its own responsibilities across the span of global obligations is reflected in the ongoing preeminence of the U.S. dollar as the world's reserve currency. By maintaining a capital market of unparalleled depth, transparency, liquidity, and openness, the United States continues to provide the safety net that global investors value most. It is incumbent on U.S. policymakers not to take for granted the reserve-currency status of the dollar but rather to ensure that the country's economic policies and stewardship of U.S. capital markets sustain this track record of trust and reliability. This also entails using financial sanctions judiciously—as against Iran, Russia, and North Korea—to support critical national security objectives while designing such sanctions with care and precision to target hostile actors and limit collateral damage to other countries and markets.

THE DOMESTIC AGENDA

Sustaining U.S. leadership in the global economic system begins at home. The United States must lead by example, as it did by bouncing back from the financial crisis. During the crisis, many were questioning the place of the United States in the global economy. But the U.S. government's forceful and prompt response—using all available tools—ultimately demonstrated the underlying resilience of the American economy. The U.S. Federal Reserve took aggressive action on the monetary front, while the president and Congress adopted a powerful fiscal stimulus that combined government spending with temporary payroll tax cuts that put money directly in the pockets of American workers. The result has been the longest streak of uninterrupted private-sector job growth in U.S. history; as of early 2016, the economy had experienced over 72 consecutive months of job growth, with 14 million jobs generated in the private sector and the unemployment rate falling to 4.9 percent. Between 2009 and 2015, the budget deficit declined from nearly ten percent of GDP to 2.5 percent. Meanwhile, improved financial regulation has helped address the causes of the crisis, producing a better-capitalized and more stable financial system.

But along the way, there were a number of moments when the world wondered whether political conflict had rendered the American system incapable of meeting the challenge. Government shutdowns and the threat of government default heightened global anxieties. U.S. Treasury bonds define the risk-free rate of return around the world, and the chance that political turmoil could lead to any form of default left lasting scars, wounds that would be reopened immediately at the first sign of a repeat episode. Moreover, Washington's inability to reach a consensus on domestic issues such as rebuilding aging infrastructure, reforming the broken business tax code, and passing immigration reform—issues on which there is in fact the potential for bipartisan consensus—raises questions about the country's future economic strength. The United States needs to address these issues for domestic reasons, and when it does, it will be more capable of achieving its international objectives, as well.

Last summer, when Congress approved legislation granting the president trade promotion authority, it demonstrated yet again that, working together, both sides of the aisle can tackle difficult issues. The move also opened a pathway for the approval of the Trans-Pacific Partnership (TPP), signed in February, which will level the global playing field for U.S. workers and firms while getting other countries to meet a high bar on environmental, labor, and intellectual property standards—yet another example of the United States promoting its values in global economic institutions. Similarly, when Congress reauthorized the Export-Import Bank last year, it leveled the playing field for U.S. firms, including small businesses, and gave the United States leverage to prevent other governments from unfairly subsidizing their exporters through artificially cheap financing.

This February, the president signed the Trade Facilitation and Trade Enforcement Act, which gives the U.S. Treasury new tools to fight unfair currency practices. By enumerating objective criteria that would automatically trigger enhanced scrutiny of a country's currency

Lew testifies on Capitol Hill, February 2016

AP PHOTO / ALEX BRANDON

practices—such as a significant bilateral trade surplus with the United States, a sizable current account surplus, and persistent one-sided intervention in foreign exchange markets—the legislation put governments on notice that such practices will be caught and subject to a U.S. response. Just days after the act became law, the Treasury made it clear to U.S. trading partners that the United States will vigorously apply these criteria, which—in tandem with existing multilateral mechanisms through the IMF and the G-20—will be a strong deterrent to would-be currency manipulators.

Without congressional partnership, many of these important steps would have been impossible. Likewise, it will take congressional action to address the underlying concerns of many Americans that make international commitments difficult. Congress and the executive branch must work together on domestic policies that can assure anyone willing to study and work that they will have the opportunity to advance in a changing economy. And it is critical that Congress support policies to help workers dislocated by global competition, such as Trade Adjustment Assistance (a federal program for which the president secured a six-year reauthorization last year), not only when trade agreements are pending but also during the long periods in between, when anxieties are no less pronounced but Washington is too often silent.

Although the power of American ideas and values remains a pillar of the global system, the continuing financial commitment of the United

States to the international financial institutions is also essential. This includes having Congress appropriate the funds required to meet U.S. pledges to the multilateral development banks. As director of the Office of Management and Budget in the 1990s, I was personally involved in the effort to clear unmet U.S. commitments to the UN at a moment when that institution was addressing key U.S. security priorities in southeastern Europe and Africa, as well as Iraq. Today, Washington is again accruing unmet pledges to many organizations to which it will turn at moments of crisis or to pursue other goals. To put it bluntly, the United States must pay its bills. The return on investment in terms of sustaining its influence and advancing its values is enormous. And if the United States does not lead, others will act without it.

The world's future economic challenges will require the United States to invest a great deal of effort, time, and financial resources. Making the case for sustained U.S. leadership is not always easy. Unilateralism or isolationism often make for better sound bites. So it is incumbent on everyone who believes in the benefits that international cooperation has brought to the United States to be vocal in articulating the economic and geopolitical case for an ongoing U.S. commitment to global economic engagement.

THE GLOBAL AGENDA

The ongoing agenda for U.S. leadership encompasses a broad range of global priorities, which will not end with the current administration. First, the United States is working to further modernize the IMF's system of governance and improve its capacity to deal with evolving challenges. Although the IMF must remain the world's first responder to financial crises, to advance its core mission of promoting the efficient operation of the global economy, it must also intensify its analysis of and raise its voice on such critical issues as exchange rates, current account imbalances, and shortfalls in global aggregate demand. The United States should also continue to press the IMF to promote greater transparency among its members when it comes to economic and financial data, including data about foreign reserves. More information means better policy cooperation, as well as more efficient functioning of financial markets.

Second, the United States is acting to further strengthen the ability of the World Bank and the regional development banks to support sustainable and inclusive growth. This means ensuring that these institutions have sufficient resources, policy expertise, and links to the public and private sectors to help countries achieve the UN's Sustainable Development Goals for access to energy, food security, health and education, gender equality, and infrastructure development. It also means ensuring that they have the right tools to address challenges such as state fragility, forced migration, natural disasters, and disease epidemics. To mobilize resources to cut carbon emissions and build societies resilient to climate change, the United States is already helping existing institutions partner with the private sector and with relatively new institutions such as the Green Climate Fund, an entity that grew out of the UN Framework Convention on Climate Change. In this effort and others, the World Bank's social, environmental, and fiduciary standards will prove vital to promoting best practices. The United States is also working closely with both the private and the public sector to expand access to financial services for underserved and poor communities worldwide, since greater inclusion in the formal financial sector helps reduce poverty and makes it harder for people to engage in illicit or threatening financial activity.

Third, the United States is continuing to modernize the global trading system by pushing for innovative features in new trade agreements that can eventually serve as global standards to meet the needs of a complex and evolving world economy. The TPP not only promises to open markets to U.S. firms and support higher-paying jobs for American workers; it also offers innovative approaches to key global issues, such as strengthened labor and environmental provisions, robust protections for trade in services, and controls on the behavior of state-owned enterprises to ensure fair competition. Also, in a first-of-its-kind declaration on macroeconomic policies, TPP countries have committed to avoid manipulating exchange rates for competitive purposes, to adhere to unprecedented transparency on their exchange-rate policies, and to hold one another accountable for their commitments through new bilateral and multilateral mechanisms. In addition to securing congressional ratification of the TPP, U.S. trade priorities include ongoing negotiations with the EU on the Transatlantic Trade and Investment Partnership and working with a wide array of partners on an agreement to liberalize trade in services.

Fourth, to prevent a repeat of the financial crisis, the United States continues to advance efforts to reform the international financial regulatory system. Starting at the G-20 summit in Pittsburgh in 2009, the United States led the call for more rigorous capital standards for banks, greater transparency in the derivatives market, and stronger tools for managing the failure of financial institutions. In the seven years since, in each of these areas, U.S. leadership on the Financial Stability Board (FSB), a G-20 body that monitors the global financial system, has made that system more resilient. With many of the critical standard-setting reforms in place, the focus now shifts to giving them full effect, by implementing them comprehensively and consistently in major financial centers across the world. Governments must also be attentive to emerging threats, from cyberattacks to the growth of nonbank financial companies that are systemically important yet not subject to traditional oversight.

Critics often mischaracterize the FSB, claiming that it will usurp U.S. regulators. Such fears are unwarranted: U.S. regulators have final responsibility and the independent authority to protect the integrity of the U.S. financial system. In executing their prudential responsibilities, U.S. regulators apply rigorous standards that strive to be at the frontier of best practices. The purpose of the FSB is to embed such high standards into the international regulatory framework to safeguard the global financial system and provide a level playing field on which firms from various countries can compete. The last thing the global economy needs in the wake of the financial crisis is for countries to run away from high standards in a regulatory race to the bottom.

Fifth, the United States is expanding efforts to combat terrorist financing, corruption, money laundering, and other financial crimes. The U.S. Treasury is strengthening its anti-money-laundering and counterterrorist-financing rules at home and working through the Financial Action Task Force, an intergovernmental body, to improve their enforcement globally. In December 2015, I chaired a meeting of my counterparts from the other members of the UN Security Council—the first such meeting for finance ministers—where we unanimously passed a resolution to bolster the international effort to combat terrorist financing, specifically against the Islamic State, or ISIS. This mission is never complete. As financial innovation reshapes the international financial system, governments must stay a step ahead by updating their regulatory regimes to combat abuse. At the same time, they must make clear that such regulations are not intended to impede the legitimate provision of financial services by global banks—especially to the underserved. Combating abuse and promoting financial inclusion are complementary goals, in that informal cash economies stifle economic potential and foster illicit finance.

Finally, the Treasury is committed to building on the progress it has made in cooperating with emerging-market partners such as Argentina, Brazil, India, and Mexico on key priorities such as facilitating investment, improving the implementation of tax policies, promoting financial inclusion, and combating money laundering and terrorist financing. These efforts, along with my discussions with counterparts from other emerging economies, are crucial to aligning priorities on macroeconomic policy and governance in the IMF, the World Bank, and the G-20.

The relationship between the United States and China, the world's two largest economies, is uniquely important to advancing shared prosperity, maintaining a constructive global economic order, and making progress on existential challenges such as climate change. The U.S.-China Strategic and Economic Dialogue has helped build the relationship among economic and diplomatic officials from the two countries and has provided a platform for discussing with China its continuing efforts to rebalance its economy toward household consumption and to give the market a decisive role in its economy, as well as to embrace greater transparency and predictability in its policymaking. The dialogue has also served as a critical venue for U.S. officials to impress on their Chinese counterparts the importance of making an orderly transition to a market-determined exchange rate. At the 2013 meeting of the Strategic and Economic Dialogue, the United States and China announced a milestone with the start of substantive negotiations on a U.S.-Chinese bilateral investment treaty. The goal is to set ambitious standards for protecting investments that would benefit not just U.S. firms abroad but also U.S. companies and workers at home. This year, the United States is also working intensely with China on an agreement within the World Trade Organization to lower tariffs on environmental goods such as wind turbines and on guidelines concerning government-backed export financing.

This discussion has also focused on the importance of China taking on the responsibilities that go along with its economic significance. With the creation of institutions such as the Asian Infrastructure Investment Bank, China is playing a greater role in the international financial architecture. Some have suggested that the United States opposed the creation of the AIIB because it posed a threat to U.S. influence in the international financial system. That is simply not the case.

As a participant in the key discussions, I conveyed the same message both to China directly and to countries considering joining the institution: namely, that it was paramount to incorporate in the AIIB's policies and procedures the high-quality standards and lessons learned from the decades of experience of the World Bank and regional development banks, so that the AIIB can reinforce the existing global financial architecture. To that end, during the visit of Chinese President Xi Jinping to Washington in September 2015, China pledged that such new institutions would operate in line with the high governance and environmental standards of existing institutions such as the World Bank. And it is important that China keep this pledge. Significantly, Xi also committed to meaningfully increase China's financial contributions to the work of the World Bank and the regional development banks in the world's poorest countries. A successful AIIB that meets high standards and collaborates effectively with the other international financial institutions would be a positive thing for the global economy, and the United States will continue to advance the case for such standards and collaboration. China's rotation as president of the G-20 in 2016 further underscores the importance of the relationship between the two countries, offering new opportunities to work together to strengthen the global economy.

ONWARD AND UPWARD

The last year alone saw major progress in advancing U.S. leadership in the global economy. The Obama administration worked with Congress to secure IMF reform, trade promotion authority, and the reauthorization of the Export-Import Bank. The United States reached agreement with its international partners on the TPP, a landmark climate agreement, the Iran nuclear deal, and an expanded strategy to stop terrorist financing. But the United States cannot take its global role for granted. It must continue to ask whether its actions—and inactions—enhance its capacity to maintain this preeminent leadership role in the future.

The farsightedness of previous generations of Americans provided a solid foundation on which to advance American values and build a prosperous future for the United States and other countries. The task now is to strengthen this architecture and adapt it to new challenges. In doing so, the United States will not only address the urgent issues of the present day; it will also ensure that the next generation of Americans inherits an even stronger platform for navigating the economic and financial landscape of the future.

Tiberio Barichelli: Presidency of the Council of Ministers

SPONSORED SECTION

Italy Part I
Partners of Excellence

Sweeping Structural Reforms Start Bearing Fruit

This March, Italy's National Institute for Statistics (ISTAT) certified the country's official exit from recession in 2015 on the back of a 0.8 percent gross domestic product (GDP) growth, a 2.6 percent deficit-to-GDP ratio, a 132.6 percent debt-to-GDP ratio, and a 43.3 percent fiscal deficit drop. These figures represent the first evidence of a cycle upswing since the sovereign debt crisis hit the economy in 2012, and while it may be premature to entirely rule out a relapse, they have prompted a resurgence of optimism among Italians.

However, as the Minister of Economy and Finance, Piercarlo Padoan notes, "Italy is currently facing a double challenge: emerging from the quagmire of the last three years, which has cost us ten points of GDP and one million jobs, and stopping the erosion of our business environment and the overload on public finance, which have hampered our growth and FDI inflows for at least two decades. This dragged out stagnation has born devastating effects on our economy, comparable to those of a war, but we are working hard to steer Italy back on the right track." In this context, ISTAT's report represents a shot in the arm for the continent's fourth largest economy.

Padoan's observations, while accurate, only tell part of the story. Italy has long been stigmatized by international observers as one of Europe's chronically ill patients, due to a unique bundle of endemic structural problems including a daunting national debt, a sluggish public administration, a cumbersome bureaucracy, a convoluted and highly inefficient justice system, widespread corruption, deteriorating demographics, and one of the weakest competitiveness records in Europe.

Since taking office on February 22, 2014, the government has laid out a large-scale reform package, aimed at modernizing the country by systematically eradicating unnecessary bureaucracy and streamlining processes across the board. Indeed, there is no other way if Italy's economic resurgence and vastly underexploited potential are to be fully unleashed, and if the trust of consumers, enterprises, and investors alike is to be restored.

Italy wishes to move past the trite, but deserved, labels of postcard destination and to take a seat at the table of the world's elite business havens. Padoan asserts, "To those who are thinking of a safe place to relocate their families, operations or investments, I say, Italy is back. Come and try us out, this is the time to do it."

One thing the Mediterranean nation is well known for is its ability to produce a wide range of highly desired products. The Vice Minister of Economic Development, Carlo Calenda underlines that it is not Europe's second top exporter by accident, "In recent years our exports have grown at an average of 1.9 percent per annum, versus Germany's 2.3 percent and France's 0.8 percent. Most people know Italy as 'the three F's exporter', namely food, furniture and fashion, but we are also strong in mechanical production, engineering and scientific research. What everyone agrees on, is that we build quality and are great at innovating." ■

Banca Popolare di Milano

Strong Roots Build Longevity

BPM leads conversion process of Italy's cooperative banks

2015 marked the one-hundred-fiftieth anniversary of Banca Popolare di Milano (BPM), Italy's second-ever and longest-standing cooperative bank. Its Chief Executive Officer Giuseppe Castagna explains in a nutshell the reasons behind its remarkable longevity: "Two key factors stand out from the rest: the extraordinary dedication of our employees to this institution and our indissoluble ties to Lombardy, Italy's wealthiest region."

BPM was created with the mission of facilitating access to credit for industrialists, tradesmen, and small and medium-sized enterprises. Although its area of influence today stretches across northern Italy, 450 of its 700 branches are located in Lombardy.

Listed on the Milan Stock Exchange in 1994, it counts over 100,000 shareholders, nearly half of whom are members, employs 8,000 staff and serves 1.3 million customers.

In compliance with the government's latest dispositions, Castagna has since last year been busy transforming BPM from a cooperative bank into a publicly traded corporation. He notes, "Despite being relatively small, we are a highly valued institution, and we are equipped to carry this delicate transformation process out successfully."

Giuseppe Castagna
CEO of BPM

Over the past two years, it outperformed all its peers in terms of market capitalization and various other indicators, and in 2015 it recorded net profits of €260 million, a staggering 83 percent increase over the previous year.

Understanding that building critical mass is key to retaining a position as market leader, Castagna has been actively pursuing a merger with another top player. He comments, "The dimensional shift is our biggest challenge going forward, though it is crucial as it would help us bridge the gap with Italy's first two banks."

Colavita

78 Years in the Name of Quality

Multigenerational olive oil producer banks on worldwide reputation to expand its offer

Founded in the late 1930s by siblings Giovanni and Felice Colavita in Molise, Italy's youngest and second smallest region, Colavita is the archetypal saga of the Italian family business that rose from humble beginnings to international acclaim.

Its Chairman Enrico Colavita, who was recently decorated with the prestigious Order of Merit for Labour by Italy's President Sergio Mattarella, recalls, "We began promoting Italian culture and food internationally some forty years ago, that is, long before our cuisine earned a global reputation as the quintessential Mediterranean diet. We were quick at intercepting the interest of the American people for Italian food products, and this early intuition, to this day, is what gives us a lead over our competitors."

A recognized market leader in the 100 percent Italian olive oil segment and now under the leadership of its third generation, Colavita's distribution network covers eighty countries in five continents, and keeps expanding.

It was in 1978, while honeymooning in the States, that Enrico Colavita met his future U.S. partner, John J. Profaci. The two hit it off immediately and cofounded Colavita USA.

The "Colavita Center for Food and Wine," a cooking school located within the premises of the Culinary Institute of America at Hyde Park, NY, opened in 2001, helped to further consolidate the brand, giving it a strong foothold into the American market. Along with olive oil, today the company produces, imports and distributes a wide range of prime quality Italian foods and beverages, including Perugina Baci and Perugina chocolate products, Cirio tomatoes, Scotti rice and San Benedetto water.

When asked for the recipe for their longevity and success, the Chairman replies, "At Colavita, quality, credibility and brand reputation have always come first. They represent our core values, together with our identity, which has remained firmly rooted in the Italian culture and tradition." He adds, "We are strong supporters of so-called 'Italianism', as we believe the Italian spirit is a concept that transcends one's birth origins." He concludes, "The world is full of people who love our food and lifestyle, and that creates a favorable environment for us to continue broadening our portfolio to other business segments. This is one of our top priorities today and I believe our future strategy will remain oriented in the same direction."

Statistical data confirms Colavita's observations. Both Italian cuisine and his brand do, in fact, continue to draw new enthusiastic fans from every latitude.

Publishers: Gabriele Villa & Sorcha Hellyer / **Writer:** Michele Grimaldi
IMAGE DIPLOMACY: Ischia Court - Unit 1 / Spinola Road / Saint Julians / Malta / Tel: +356 3550 0171 / www.imagediplomacy.com / info@imagediplomacy.com

Hotel Napoleon

Hospitality in Grand Style

Alongside the lively gardens of Piazza Vittorio, just a short walk from the Colosseum, the Imperial Fora, Termini train station, the Santa Maria Maggiore and San Giovanni churches, lies, with the unassuming poise and charm of old-timers, the Hotel Napoleon.

Roberto Cioce, its energetic and affable Managing Director, assures visitors that there is more to the deal than just premium location: "We are like a placid oasis in the midst of Rome's bustling traffic. Our seventy-four rooms, all facing inner courtyards, guarantee a level of peacefulness and quiet that is unmatched in this city."

Hosted in a nineteenth-century palace, this stately yet cozy four-star establishment combines scrupulously preserved elegance and tradition with contemporary efficiency. The roomy, classy lounge area features enveloping sofas and armchairs, surrounded by an art collection that could rival that of a small museum. "We are a traditional Roman hotel, but make no mistake," Cioce points out, "We have one of the fastest fiber-optic internet connections in town."

A few more elements of distinction, according to Cioce, place his property in a league of its own. Besides the twenty-four-hour concierge desk, an almost outdated yet invaluable service in a city as densely packed with attractions as Rome, he cites the in-house dining facilities, gym, laundry room, and advanced security system. "As a multigenerational family business," he explains, "we are well aware of our guests' ever-changing and diverse needs. We understand that, in order to earn their loyalty, we need to make sure the service we deliver is worth their money and, whenever possible, even exceeds their expectations. Making our patrons feel at home is not a mere slogan, it is second nature to us."

He continues, "From day one, the backbone of this establishment has been our staff and we consider them part of our family, just like our clients. Having a stable workforce has guaranteed us a steady flow of repeat business, as our customers have enjoyed the same personable touch and familiar atmosphere throughout the years", he concludes.

Hotel Napoleon's impressive neoclassical lobby area
www.napoleon.it

Poste Italiane

Helping Italy Make the Digital Quantum Leap

Can the boot-shaped nation pass the test of its coveted digital revolution? Francesco Caio, Poste Italiane's Chief Executive Officer, outlines how his company can contribute

Francesco Caio, CEO of Poste Italiane

As the country's leading provider of integrated postal, logistics, e-commerce, financial, insurance, mobile telephone, and digital communications services, Poste Italiane plays a crucial role in securing Italy's place among the elite economies of the world.

A national pillar because of its sheer size and socioeconomic influence, the company boasts an impressive network of 13,200 post offices and 142,000 employees, handles around 50 million transactions a day for 33 million customers nationwide, generates annual revenues in the neighborhood of €30 billion, and holds around €470 billion in postal savings deposits.

"The widespread coverage of the country and the close proximity that we are able to guarantee our customers, thanks to our infrastructure and our 28,000 mail carriers, represents a formidable asset for Poste Italiane, even in the digital age, as it contributes to building trust, and trust is our core business," explains Francesco Caio, Poste's dynamic and outspoken Chief Executive Officer. "Our further ability to integrate all of this with state-of-the-art logistics and digital services turns us into a powerful catalyst of transformation, as well as a key propeller for the simplification of public services," he adds. This latter is particularly important, having been identified by the government as a major hurdle to attracting fresh foreign direct investments.

A consummated and highly accomplished veteran of the telecommunications industry, Caio makes no mystery of the challenge his teams faces: "Our medium-term business plan is all geared towards positioning us as Italy's ultimate driver of innovation and inclusive socioeconomic development; two areas of vital importance for our country's overall competitiveness," he says. And continues, "It is both a monumental task and a huge responsibility, but after the slump of these past three years, Italy is once again back on its feet and Poste Italiane is determined to help it regain center stage in Europe."

Caio, who has sat at the helm of the company since May 2014, has been entrusted with the task of accelerating the country's digital agenda and guiding Poste Italiane through its eagerly awaited initial public offering. Billed as Italy's largest privatization in over fifteen years, it became a reality on October 27, 2015. Caio describes it as "a goal and a starting point at the same time".

And while assessing its contribution to reducing Italy's massive public debt may be premature, the move epitomizes the government's unwavering determination to push forward its ambitious economic reform plan. Indeed, it plays trailblazer to the privatizations of FS Italiane and ENAC, two other highly prized assets in the government's coffers, both of which are in the pipeline and just waiting for the green light.

Caio's take on the subject is razor-sharp: "The privatization of Poste Italiane represents not just the accomplishment of a financial goal but, also and foremost, a strategic one. At a time when the company's effort to reposition itself as a leader and a role model of innovation is met with the cutting of public funds, the only way to guarantee its sustainability was to open it up to the market."

The postal needs of citizens are changing everywhere, and Italy is no exception. The progressive drop in demand for traditional mail services in recent years—prompted by the expansion of Internet-based communication—has been partially offset by a pronounced hike in the parcels and e-commerce segment. In response to such unequivocal market alerts, Caio highlights, "Going forward our sustainability will be largely based on our ability to offer a logistic platform that can handle, promptly and efficiently, the payments of goods purchased online and their delivery to either home or a postal office." To that effect, the company is pursuing further investments in the upgrading of its infrastructure and logistics network, confident that it will further improve the quality of its services and promote significant levels of growth.

Caio concludes, "Poste Italiane is a company that straddles tradition and innovation simultaneously, acting as a sort of bridge between analogue and digital, between physical and immaterial. I am a firm supporter of a hybrid model, that is, one that leaves our customers free to choose which of our plethora of services to use and how." ■

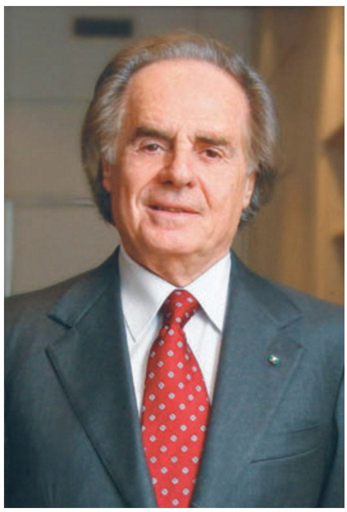
Elettronica

Niche Defense Player Gains Momentum

As the world grapples with new and increasing security threats, electronic defense may provide the most effective solution at hand

Established in 1951, just as Italy was rising from the ashes of World War II, Elettronica stands today as one of Europe's top manufacturers of electronic defense and security equipment. A sort of one-stop-shop within the realm of electronic protection, it supplies the armed forces of twenty-eight nations in five continents, with a product line embracing the entire spectrum of electronic warfare, including the design, development and manufacturing of passive electronic warfare (EW) equipment for search, detection, analysis, identification and location of electromagnetic emissions, electronic countermeasure equipment, and radar warning receivers. With 60 percent of its 700 employees holding a technical degree, the company is considered an interlocutor of choice in its fields of expertise.

Thanks to a number of successful international partnerships with leading platform manufacturers and global players, Elettronica has implemented highly sophisticated systems, like the EW suite for consortia and international programs, such as Typhoon, Horizon Frigates, Tornado, EH101, AMX, NH-90 and Mirage2000.



Enzo Benigni
President of ELETTRONICA

Elettronica's President and Managing Director, Enzo Benigni guides us through a deeper understanding of his company: "Although our sector is by nature a niche sector, we think and act much like any big company would. Ever since we made our debut in the Italian defense industry, we fought hard to preserve our core identity and the spirit of our mission intact. We never aspired, nor tried, to broaden our niche to other segments, and that has enabled us to consistently strengthen our know-how and expertise in our fields of interest, while at the same time optimizing our efficiency. Eventually, our niche has expanded anyway, but without altering who we are, nor our business approach." He adds, "Not being listed allows us to concentrate all our attention on vital, value-adding activities for a company like Elettronica, such as research and innovation. That has enabled us to develop our engineering capabilities to a greater extent that we could have done, had our main focus been on our financials. Ultimately, this strategy has also paid off in terms of our results, and today we have an order book with a time span of at least four years, with a clear medium-term vision."

He continues, "The ever-changing economic and geopolitical scenarios around the world require that we keep flexible and agile, and adopt a tactical approach rather than a strategic one. Technology changes constantly, and so do the relationships with our clients. Surviving in such a fluid environment requires the ability to offer a winning package; nowadays, companies must be closely integrated with their clients."

Elettronica GmbH, the company's German subsidiary since 1978, has recently been focusing on system integration, simulation and test and manufacturing. It has earned growing attention from Middle Eastern countries and North Atlantic Treaty Organization members and has signed agreements with leading telecommunications players Alcatel and Huawei.

In its on-going effort to keep abreast of its competitors, the company created a joint venture named Cy4Gate S.r.l. with Expert System S.p.A., a renowned developer of semantic software for the management of information and big data. Cy4Gate S.r.l. offers a plethora of cyber solutions to intelligence agencies, law enforcement organizations, and EW commands. A highly promising and rapidly growing niche, the cyber security industry recorded investments in excess of $75 billion in 2014, and by 2019 they are expected to double. Clearly, being a niche player does not prevent Elettronica from exploring other areas and widening its scope of action.

When asked about the company's core strengths today, Benigni's reply is direct: "Engineers constitute our principal asset, no doubt. Being the only private EW player in Italy though, forces us to either recruit directly from universities and train them in-house, or to import them from abroad. Both activities come at a considerable cost, but they are necessary to retain our competitive edge."

Looking into the future, the head of Elettronica predicts further consolidation and underlines, "Our sustainability lies in our swiftness in anticipating today what the market will need five years from now and plan accordingly." He concludes, "In a world where defense budgets are constantly downsized, a company's survival depends on its ability to finance its own research and development activities autonomously. We reinvest 10 percent of our turnover in R&D, and that gives you a measure of our commitment to excellence." ■


quotazione.posteitaliane.it
WE ARE
THE CHANGE.
Our life is made up of changes.
Sometimes radical, sometimes almost imperceptible.
Yet every day, we change. Because changing is the best way to grow.
That’s true for everyone, including Poste Italiane. And we are changing
alongside you to make Italy a faster, easier and better place.
Posteitaliane

Return to Table of Contents

Making America Great Again

The Case for the Mixed Economy

Jacob S. Hacker and Paul Pierson

At a debate among the Republican presidential candidates in March, U.S. Senator Ted Cruz of Texas boiled down his campaign message to its essentials: "Here's my philosophy. The less government, the more freedom. The fewer bureaucrats, the more prosperity. And there are bureaucrats in Washington right now who are killing jobs and I'll tell you, I know who they are. I will find them and I will fire them."

What was remarkable about this statement was how unremarkable it was. Cruz was not taking a radical position; he was expressing his party's orthodoxy, using boilerplate language to signal that he understood the conservative movement's core concerns. For years, his fellow Republicans have taken comparable stands. When Texas Governor Rick Perry got into trouble while making a similar pledge in a presidential candidate debate in 2011, for example, it was not because he promised to eliminate several federal agencies—Cruz wants to eliminate even more—but because he couldn't remember all the particular agencies he wanted to jettison.

Even if the candidates making them are elected, specific promises about, say, closing major government agencies are bound to be broken, for reasons of simple practicality. As a debate moderator had pointed out to Cruz a few weeks earlier, for example, once he had eliminated

JACOB S. HACKER is Director of the Institution for Social and Policy Studies and Stanley B. Resor Professor of Political Science at Yale University.

PAUL PIERSON is John Gross Professor of Political Science at the University of California at Berkeley.

They are the authors of *American Amnesia: How the War on Government Led Us to Forget What Made America Prosper* (Simon & Schuster, 2016), from which this essay is adapted.

the Internal Revenue Service, there would be nobody left to see that taxes were collected, which would pose something of a problem for the functioning of the government. But the spread of this sort of thinking in recent decades has had important effects nonetheless, contributing to increased hostility to government and a major retrenchment in government activities.

Many conservatives complain that this contraction has been too limited and that cutting back even further would unleash powerful forces in the U.S. economy and society that would help solve problems such as slow growth, stagnating incomes, low labor-force participation, and rising inequality. They tell a story about a bygone era of economic dynamism when men and markets were free—a laissez-faire Eden that was lost when progressive politicians such as Woodrow Wilson started using government power to try to "improve" things and ushered in a century of increasingly tyrannical government meddling that has led to a host of terrible outcomes.

The truth is almost precisely the opposite. The spread of capitalism in the eighteenth and nineteenth centuries triggered innovation, growth, and economic progress, but so long as markets were relatively unconstrained, the scale and benefits of that economic dynamism were often limited, inconsistently delivered, unequally distributed, and too frequently unfairly captured by powerful private actors. It was the emergence in the first half of the twentieth century of a robust U.S. government willing and able to act boldly on behalf of the country as a whole that led to spectacular advances in national well-being over many decades—and it has been the withering of government capabilities, ambitions, and independence in the last generation or two that has been a major cause of the drying up of the good times.

There has been nothing inevitable about the trend toward weaker, less functional government; it has been driven by a relentless campaign over many decades to delegitimize the stronger U.S. government that did so much good earlier in the century. So the trend can be reversed. But it will take an equally persistent campaign in the opposite direction, devoted to reminding Americans of what they once understood so well: that a government capable of rising above narrow private interests and supporting broader public concerns is part of the solution, not the problem.

WHAT ADAM SMITH UNDERSTOOD

Like other advanced democratic nations, the United States has what economists call a "mixed economy." In this public-private arrangement, markets play the dominant role in producing and allocating goods and innovating to meet consumer demand. Visionaries such as Apple's Steve Jobs see untapped opportunities to make money by satisfying human wants and then draw on the knowledge and technology around them to produce goods and services for which people are willing to pay. Alongside companies such as Apple, however, government plays a dominant or vital role in the many areas where markets fall short. As the economist Mariana Mazzucato has documented, if you look inside that iPhone, you'll find that most of its major components (GPS, lithium-ion batteries, cellular technology, touch-screen and LCD displays, Internet connectivity) rest on research that was publicly funded or even directly carried out by government agencies.

Jobs and his creative team transformed all of this into something uniquely valuable. But they couldn't have done it without the U.S. government's huge investments in technical knowledge—knowledge that all companies can use and thus none has a strong incentive to produce. That knowledge is embodied not just in science and technology but also in a skilled work force that government fosters directly and indirectly: through K–12 schools, loans for higher education, and the provision of social supports that encourage beneficial risk taking. And even if government had played no role in seeding or enabling Apple's products, it would still be responsible for much of the economic and physical infrastructure—from national monetary policy to local roads—on which the California tech giant relies.

Of course, affluent democracies differ in the exact form that this public-private mix takes, and not all mixes are equally effective. Public policies don't always foster prosperity. Those within government can hurt, rather than harness, the market, distributing favors to narrow interest groups or constraining economic dynamism in ways that stifle growth. No less important (though more neglected), they can fail to respond to problems in the market that could and should be addressed by effective public action, hindering growth through omission rather than commission. For all of this, however, no country has risen to broad prosperity without complementing private markets with an extensive array of core functions that rest on public authority—without, that is, a mixed economy.

That markets fall short under certain conditions has been known for centuries. In the eighteenth century, Adam Smith wrote enthusiastically about the "invisible hand" of market allocation. Yet he also identified many cases in which rational actors pursuing their own self-interest produced bad outcomes: underinvestment in education, financial instability, insufficient infrastructure, unchecked monopolies. Economists have been building on these insights ever since to explain when and why markets stumble and how the visible hand of government can make the invisible hand more effective.

The visible hand is needed, for example, to provide collective goods that markets won't, such as education, infrastructure, courts, and basic scientific research; to reduce negative spillover costs that market participants don't bear fully, such as pollution; to encourage positive spillover benefits that such parties don't take fully into account, such as valuable shared knowledge; to regulate the market to protect consumers and investors from corporate predation and from their own myopic behavior; to provide or require insurance against medical and retirement costs; and to soften the business cycle and reduce the risk of financial crises.

Democracy and the market have to work together, but they also need to be partly independent from each other.

The political economist Charles Lindblom once described markets as being like fingers: nimble and dexterous. Governments, with their capacity to exercise authority, are like thumbs: powerful but lacking subtlety and flexibility. The invisible hand is all fingers. The visible hand is all thumbs. One wouldn't want to be all thumbs, of course, but one wouldn't want to be all fingers, either. Thumbs provide countervailing power, constraint, and adjustment to get the best out of those nimble fingers.

To achieve this potential requires not just an appropriate division of labor but also a healthy balance of power. Markets give rise to resourceful economic actors who want government to favor them. Absent measures to blunt their political edge, their demands will drown out the voices of consumers, workers, and concerned citizens.

Today, most of the discussion of the political power of market actors suggests that such "crony capitalism" can be avoided simply by reducing governance to a bare minimum. As Smith clearly recognized, however, the intermingling of markets and politics is inevitable: a private sector completely free of government influence is just as mythical (and undesirable) as a government completely free of private-sector influence. And a government that doesn't act in the face of distorted markets is imposing costs on society as a whole that are just as real as those imposed when a government acts in favor of narrow claimants. Trying to reduce rent seeking by crippling active government means embracing a cure far worse than the original disease.

The mixed economy, in short, solves a major dilemma. The private markets that generally foster prosperity routinely fail, sometimes spectacularly so. At the same time, the government policies that are needed to respond to these failures are perpetually under siege from the very market players that help fuel growth. Democracy and the market have to work together, but they also need to be partly independent from each other, or the thumb will cease to apply effective counter-pressure to the fingers. Smith recognized this dilemma, but it was never resolved adequately during his lifetime, in part because neither markets nor democracies had achieved the scale and sophistication necessary to make broad prosperity possible. In the twentieth century, that changed.

CROSSING THE GREAT DIVIDE

The mixed economy is a social institution, a human solution to human problems. Private capitalism and public coercion each predated modern prosperity. What was new was the marriage of large-scale profit-seeking activity, active democratic governance, and a deepened understanding of how markets work (and when they work poorly).

As in any marriage, the exact terms of the relationship changed over time. In an evolving world, social institutions need to adapt if they are to continue to serve their basic functions. Money, for example, is still doing what it has always done: providing a common metric, storing value, and facilitating exchange. But it's now paper or plastic rather than metal and more likely to pass from computer to computer than hand to hand. Similarly, the mixed economy is defined not by the specific forms it has taken but by the specific functions it has served: overcoming market failures and translating economic growth into broad advances in human well-being.

The effective performance of these functions has delivered truly miraculous breakthroughs. Indeed, the mixed economy may well be the greatest invention in history. It is also a strikingly recent invention. Plot the growth of Western economies on an axis against the passage of time, and the line would be mostly flat for thousands of years. Even the emergence of capitalism, momentous as it was, was not synonymous with the birth of mass prosperity. Trapped in a Malthusian race between population and sustenance, societies remained on the brink of destitution until well into the nineteenth century. Life expectancy rose only modestly between the Neolithic Period, about 10,000 BC to 3500 BC, and the Victorian era, 1837 to 1901. An American born in the late nineteenth century had an average life expectancy of around 45 years, and a large share of Americans never made it past their first birthdays.

Then something remarkable happened. In countries on the frontier of economic development, human health began to improve rapidly, educational levels shot up, and standards of living began to grow and grow. Within a century, life expectancies had increased by two-thirds, average years of schooling had gone from single to double digits, and the productivity of workers and the pay they took home had doubled and doubled and then doubled again. With the United States leading the way, the rich world crossed a great divide—a divide separating centuries of slow growth, poor health, and anemic technical progress from one of hitherto undreamed-of material comfort and seemingly limitless economic potential. For the first time, rich countries experienced economic development that was both broad and deep, reaching all major segments of society and producing not just greater material comfort but also fundamental transformations in the health and life chances of those it touched.

The mixed economy lay at the heart of this success, in the United States no less than in other Western nations. Capitalism played an essential role, but it was not the new entrant on the economic stage; effective governance was. Public health measures made cities engines of innovation rather than incubators of illness. The meteoric expansion of public education increased not only individual opportunity but also the economic potential of entire societies. Investments in science, higher education, and defense spearheaded breakthroughs in medicine, transportation, and technology. Overarching rules and institutions tamed unstable financial markets and turned boom-bust cycles into more manageable ups and downs. Protections against excessive insecurity and abject destitution encouraged the forward-looking investments and social integration that sustained growth required. The mixed economy was a spectacularly positive-sum bargain: it redistributed power and resources, but as its impacts broadened, virtually everyone was made massively better off.

Shovel ready: a federally funded road project in Colorado, May 2009

JOHN MOORE / GETTY IMAGES

In nations where the mixed economy took hold, the economy underwent spectacular growth. Not coincidentally, government did too. Indeed, it grew even more quickly. At the end of the nineteenth century, government spending (at all levels) accounted for around one in ten dollars of output in the wealthiest nations. By the end of the twentieth, it averaged over four in ten dollars, with the public sector accounting for six in ten dollars of GDP in the highest-spending rich nations. In some ways, these numbers overstate government's size, since much of government spending essentially shifts private income from one person or household to another rather than financing goods or services directly. Yet standard measures also understate the size of government, because they don't include many of the ways that government affects the economy: from regulation to protections against risk to the provision of legal safeguards. Suffice it to say that for all their imperfections and ambiguities, the numbers capture something real: government has grown much bigger.

Before looking at statistics such as these, one might assume that poor countries have large governments—at least compared with the size of their puny economies—and rich countries, small governments. After all, there are a couple of big tasks that governments have to do just to remain governments: provide at least a modicum of protection against internal violence and protect against external threats. These are pretty much fixed costs, or at least costs that vary with country and population size far more than economic heft, so one might expect that as the economy grows, the relative size of the state shrinks.

But that is not at all what happened. The richest countries expanded their governments the most. They upped their public spending dramatically during the period in which they grew most quickly, issued more regulations, expanded their legal systems, and offered implicit and explicit guarantees to private actors that were costless on paper but almost incalculably valuable in practice (such as serving as lenders of last resort). Modern growth occurred where, and only where, activist government emerged. And therein lies a big clue as to why the great divide was crossed.

Perhaps the most important thing that big states started doing was educating their citizens. Modern growth commenced when people rapidly increased their ability to do more with less. They were able to do more because they knew more, and they knew more, in part, because they were taught more. The beneficial forms of what the economist Robert Solow famously called "technical change"—the ideas and innovations that allow people to be more productive—rest on widespread public education that seeds scientific advances and equips workers with new skills. Indeed, economists have concluded that roughly a third of rising productivity is tied directly to increased education, with most of the rest due to general advances in knowledge.

Government has unique capacities that allow it to solve problems that markets can't solve on their own.

Government was no less crucial to another pillar of modern prosperity, the physical infrastructure that helped make the scientific infrastructure possible and productive. Even before rich countries came to depend on public investments in science and technology for rapid growth, they depended on public investments in transportation and communications networks that linked together producers and their suppliers and consumers. Among other benefits, public infrastructure facilitated the rapid flow of materials and people across long distances, allowed manufacturers to benefit from economies of scale that supported modern assembly-line techniques, permitted innovations to diffuse and goods to reach far-flung consumers, and created opportunities for workers to find jobs that matched their skills.

THE LOGIC OF GOVERNMENT INTERVENTION

Why does it take a lot of government to get and keep prosperity? Because government has unique capacities—to enforce compliance, constrain or encourage action, and protect citizens from private predation—that allow it to solve problems that markets can't solve on their own. These problems are both economic and political; they concern areas in which markets tend to fall short and areas where market actors tend to distort democratic processes in pursuit of private advantage. And even beyond correcting market failures, government can play an important role in helping markets do better at serving human needs.

One important market failure comes in the underprovision of what economists call "public goods," valuable things that must be provided to everyone or no one. The classic example is a lighthouse. Its light is available to all ships navigating a coastline. There is no cost-effective way to limit the lighthouse's benefits to paying customers, so nobody has a reason to pay. And if no one pays, markets won't motivate anyone to provide the good. Public goods of this kind are prevalent in modern life. The biggest, most obvious example is national security, which consumes one-sixth of U.S. federal spending, but the same logic applies to infrastructure and fundamental scientific research, the latter of which is the cornerstone for technological innovation.

Another kind of market failure involves the effects of market operations on people who are neither buyers nor sellers. Economists call these effects "externalities," and a classic example of a negative externality is pollution. In an unregulated market, neither a factory owner nor a firm's customers have strong incentives to care about what happens to, say, the noxious byproducts of the factory's manufacturing processes. So in an unregulated market, the factory can spew toxins into the air or water with impunity. Where such externalities are present, the market prices for the goods in question will not reflect the true social costs (or, for positive externalities, the benefits) of the private transaction.

Externalities are always an issue, but they become a much bigger issue as economies develop. In dense, complex modern societies, externalities are ubiquitous, and the associated costs (or untapped benefits) of bad market signals, potentially momentous. They include the dangers to the financial system of excessive risk taking among bankers, the dangers to public health if children are not inoculated against disease or are exposed to brain-damaging levels of lead, and the forgone human potential (and squandered economic production) if children are not given a quality education. Even the spiral of underconsumption that follows a downturn can be seen as an externality: everyone retreating from consumer markets at once means more lost jobs and an economy that continues to underperform. What's individually rational is collectively destructive, and hence governments may need to step in to reverse the slide with countercyclical policies.

In complex societies, failures caused by incomplete or asymmetrically distributed information (when one party to a transaction knows a lot more than another) also become more ubiquitous. Insurance markets routinely fall short, for example, when buyers know more about the risks they face than do sellers (who then figure out many ways to exclude or limit coverage for those they fear will be costly). This is one reason why publicly provided or subsidized insurance has proved a mainstay of all rich countries, protecting people against risks they cannot protect themselves against and encouraging investments that entail such risk (such as investment in human capital that might lose value in a dynamic economy where needed skills change rapidly).

And it's not just that information can be incomplete or unevenly distributed. Although even broaching the subject invites charges of paternalism, the fact is that people can be very bad at making very important decisions when those decisions are complex, confusing, or involve long-term costs and benefits. As behavioral economics has increasingly shown, myopia and the difficulty of delaying gratification are important reasons for such negative outcomes as insufficient retirement savings and premature death due to smoking. In this context, government "nudges" or even more vigorous pushes—when informed by science and designed to preserve individual autonomy—can be enormously prosperity enhancing.

Because governments have chosen to intervene to provide public goods, counter negative externalities, and do some benign nudging, hundreds of millions of lives are now healthier, safer, and better protected against financial risk. In the United States and other rich democracies, the majority of government spending goes to social programs related to health care (Medicare and Medicaid) and retirement (Social Security), and the majority of regulation involves protection of the public from the operations of unscrupulous private actors. These programs are overwhelmingly popular even though they are also, as a rule, coercive. That is not a paradox; it's the point—because government is doing things that people need to get done but can't or won't do themselves.

FROM THE FOUNDERS TO THE PROGRESSIVES

The emergence of modern economies capable of generating unprecedented affluence has coincided with the emergence of activist government capable of extensive taxation, spending, regulation, and macroeconomic management. The United States' emergence as a world economic power in the latter half of the nineteenth century featured plenty of enterprising citizens seizing on the opportunities for economic advancement that the U.S. Constitution protected. But the role of the founders and their political heirs was much more direct. They built a state with the power to tax, spend, enforce, defend, and expand. Once in office, they often used the shrewd deployment of vast public lands as a substitute for taxation but with similar effects. They and their colleagues helped create a continental nation linked by infrastructure, governed by a federal legal system, and boasting the most educated work force in the world.

This trajectory was a reflection of the Constitution's purpose and design, not (as many charge today) a betrayal of them. The leading statesmen who gathered in Philadelphia in 1787 were keenly aware of the need for effective government authority. Indeed, they had become convinced that its absence was a mortal threat to the fledgling nation. Perhaps the most influential of them all, James Madison, put the point bluntly at the Virginia ratifying convention: "There never was a government without force. What is the meaning of government? An institution to make people do their duty. A government leaving it to a man to do his duty, or not, as he pleases, would be a new species of government, or rather no government at all." In designing a substitute for the loose Articles of Confederation, which had brought so much instability and vulnerability, the authors of the Constitution also put in place most of the basic instruments of governance that would become the seeds of the United States' economic flowering.

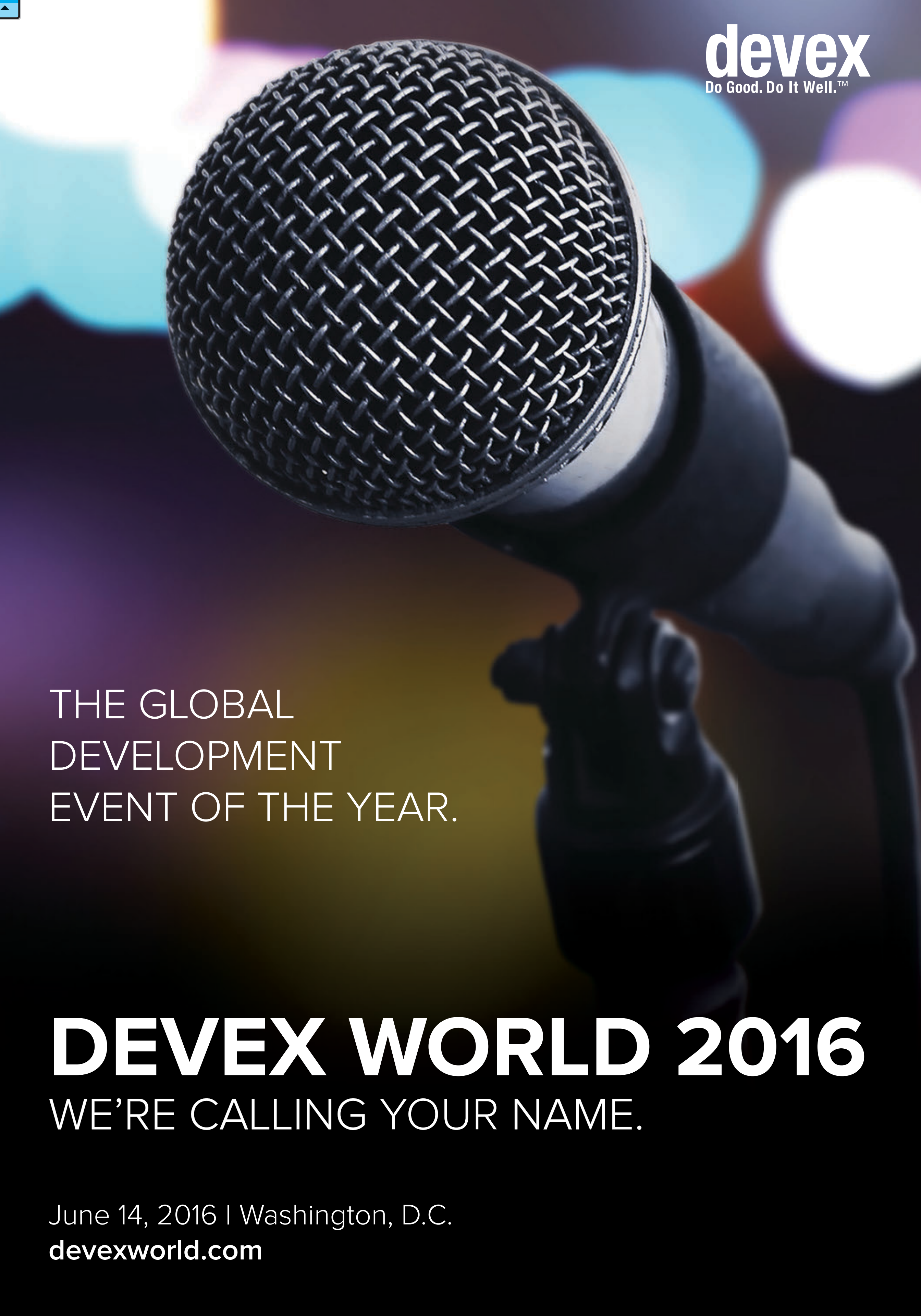
As the country reached its centenary, however, the sapling that had grown faced stiff new winds from concentrated corporate power. What came to be known as the Gilded Age is now sometimes portrayed as a glorious time of unchecked individual initiative to which the country should aspire to return. The lesson it actually teaches is very different: that a modern industrial economy cannot function without independent national authority. The business titans of the late nineteenth and early twentieth centuries were skillful in ways both laudable and despicable, but as the economist J. Bradford DeLong has argued, they were also just plain lucky. They came along when national markets were finally possible, they benefited from public land grants and loan guarantees, they capitalized on economies of scale that allowed early movers to bury rivals, and they then monetized future profits (likely or imagined) through volatile and manipulable financial markets.

The monopolistic capitalism that emerged during this era was unsustainable—economically, politically, and, although few paid attention to it at the time, ecologically. Prior government policies had been successful in promoting development. Without them, building the railroads likely would have taken decades longer, with a huge economic loss. But these policies fostered concentrated corporate power that the federal government lacked the capacity to govern effectively, and the costs to American society of that incapacity were skyrocketing. Workplace accidents soared as industrial and rail work expanded. The toxic financial assets of the era caused repeated economic crises. The social and environmental costs of industrialization were devastating. Weak and penetrated by private interests, courts provided little recourse, whether to victims of fraud, monopolies, accidents, or tainted food or medicine. And so long as government sat on the sidelines, the harms just kept multiplying. It was only a matter of time before a reaction set in, and eventually it did, in the form of the Progressive movement.

The Progressives set out to rescue capitalism, not replace it.

Theodore and Franklin Roosevelt, two of the movement's most prominent figures, were distant cousins and very different men. But they shared a conviction that government had to be strengthened to rebalance American democracy and ensure broadly distributed gains. Either could have said what Teddy declared in 1910: "The citizens of the United States must effectively control the mighty commercial forces which they have called into being."

Theodore Roosevelt would not live to see that goal achieved during his lifetime. The list of major reforms enacted in the first two decades of the twentieth century, under Roosevelt and Wilson, is long: the enfranchisement of women, the direct election of senators, the nation's first income tax, workers' compensation, the Clayton Antitrust Act, the establishment of the Federal Reserve, the first restrictions on money in politics, the first serious attempts at environmental preservation, and extensive new national regulations, including the Pure Food


devex
Do Good. Do It Well.™
THE GLOBAL DEVELOPMENT EVENT OF THE YEAR.
DEVEX WORLD 2016
WE'RE CALLING YOUR NAME.
June 14, 2016 | Washington, D.C.
devexworld.com

and Drug Act of 1906, which laid the foundation for the U.S. Food and Drug Administration. Yet Roosevelt died in 1919, on the eve of another decade of financial speculation and runaway inequality, during which public authority decayed while problems festered—until, of course, an economic crisis made continued inaction untenable once again.

Picking up where Theodore Roosevelt and Wilson had left off, Franklin Roosevelt put in place a broad range of policies that inserted government deeply into previously untouched areas of the U.S. political economy. The New Deal brought tougher financial oversight, including the creation of the Securities and Exchange Commission. With the National Labor Relations Act, it brought organized labor into the mixed economy's emerging system of countervailing power. With the Social Security Act, it introduced a widely popular system of social insurance that would protect the American middle class from some of the risks associated with modern capitalism. And with the emerging national system of taxes and spending, the New Deal added to the growing tool kit of macroeconomic management that would prevent or moderate future economic downturns.

Despite the interregnum of the 1920s, therefore, it makes sense to think of the two Roosevelts as bookending a long Progressive era. It was progressive because at crucial moments, nearly everyone in a position of high public leadership came to believe that the U.S. social contract needed updating. It was long because challenging entrenched elites proved difficult, and only persistent agitation and huge disruptions to the U.S. political order allowed the translation of these new beliefs into new governing arrangements.

THE HEYDAY OF THE MIXED ECONOMY

The Progressives set out to rescue capitalism, not replace it. The academic who oversaw the development of the Social Security Act, Edwin Witte, said of it, "Only to a very minor degree [did the act] modify the distribution of wealth, and it does not alter at all the fundamentals of our capitalistic and individualistic economy." The welfare state softened the sharp edges of capitalism without tight restrictions on economic dynamism. At the core of the new system that emerged was an exchange: the government would take much larger amounts of money from citizens than ever before, and then it would turn around and spend that money on various projects that benefited those same citizens, both individually and collectively.

Before the twentieth century, income taxes had barely existed in the United States, and before World War II, they had brought in no more than two percent of national income. By 1943, they raked in 11 percent, and the share of the population paying them skyrocketed from seven percent to 64 percent.

At first, most of the money went to the war effort, of course. But research in universities and industrial labs also benefited. And as scientists flocked to U.S. universities to join in the action, young Americans poured into college with funding from the GI Bill. Rivaling these investments in research and education, both in scale and in social return, were vast government outlays for highways, airports, waterways, and other forms of infrastructure. The interstate highway system began with Dwight Eisenhower's 1956 National Interstate and Defense Highways Act, which dedicated over $200 billion (in current dollars) to the cause and hiked the nationwide gas tax to provide highway financing.

New Deal programs devoted to economic security expanded as well. With Eisenhower's strong support, Congress extended Social Security to cover almost all Americans and made it generous enough to pull more of the elderly out of poverty, even as disability protections were added. National health insurance—proposed by President Harry Truman but opposed by the growing private health industry—never made it to the floor of Congress, but wartime wage and price controls that permitted supplemental benefits, the spread of collective bargaining, and tax breaks for health insurance helped push private coverage up to an eventual peak of around three-quarters of Americans by the mid-1970s. The federal government also subsidized and regulated private pensions that built on top of Social Security.

As these tax breaks suggest, the new U.S. state was no unchecked Leviathan. It commingled public and private spending, direct outlays and indirect subsidies, central direction and decentralized implementation. It fostered pluralistic competition for funds among researchers, contractors, and private intermediaries, as well as among states and localities. But it was enormously active and enormously successful—and soon its rewards would extend to groups that had yet to feel the warm sun of American prosperity.

In expanding rights for women and minorities—through statutes, judicial action, and the government's own example (most profoundly, in the armed services)—the nation was finding money on the table. Government policies also boosted the skills and opportunities of the least advantaged, where the returns on such investments were highest. As the federal government expanded, it did not merely extend opportunities to individuals on the periphery of prosperity. It also extended opportunities to places on the periphery, especially the South, injecting assistance and employment, housing and highways, development projects and defense jobs into regions previously left behind by modern economic growth.

As the postwar period wore on, U.S. leaders made another vital contribution to the country's rising prosperity, pushing to address market failures associated with an increasingly dense, interconnected, and complex commercial society. The most obvious breakthroughs concerned pollution, which rapidly came to be seen as a fundamental threat to quality of life requiring vigorous regulation. The federal government also improved protections for worker safety, and in response to the growing profile of activists such as Ralph Nader, it paid much more attention to vulnerable consumers in areas as diverse as tobacco and automobiles, using the power of the state to protect citizens from the predation of others and to limit the potential damage from their own myopic choices (such as smoking cigarettes or failing to wear a seat belt).

The story of the United States' rise to richness is a story of an ongoing rebalancing of political institutions and economic realities, of public policies, social knowledge, and democratic demands. But the arc of that history bends toward a more extensive role for government, and for good reason: As the United States changed from an agricultural society into an industrial society and then a postindustrial society, the scale of economic activity and the interdependence and complexity of that activity grew, and so did the resulting damage. As the nation's leaders responded to these challenges and to pressures for action and inclusion from below, they came to recognize that making Americans healthier, better educated, and freer to pursue their own dreams—regardless of race, gender, and ethnicity, whatever the circumstances of their birth—made America richer, too.

THE BEGINNING OF THE BACKLASH

For roughly 30 years, from the early 1940s to the mid-1970s, the mixed economy of U.S. capitalism achieved unprecedented success, nurturing innovation, sustaining stability, and generating opportunity and prosperity. This successful model rested on a series of social and political understandings, compromises, and accommodations. Given their power in U.S. society, leading business figures were necessarily key participants in this success. Prominent Republicans became believers as well.

The most famous GOP convert was the general turned politician Eisenhower. He understood that the Republican Party needed to make its peace with most of the policy achievements of the previous two decades. In 1954, for example, Eisenhower privately ridiculed the desire of conservatives to roll back the New Deal: "Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history. There is a tiny splinter group, of course, that believes you can do these things. . . . Their number is negligible and they are stupid." Eisenhower's point was that the mixed economy was an established reality and there was no going back.

Eisenhower's domestic policy agenda focused on economic growth, and Democrats would criticize him for his reluctance to rely on Keynesian policy to prime the economy. Yet his administration devoted substantial energy to policies designed to improve the country's long-term economic performance. And on economic issues, the moderate consensus continued after Eisenhower left office. Although John F. Kennedy famously adopted a more Keynesian stance on the budget (built around business-friendly tax cuts), in most respects his economic policies followed the tracks laid down in the 1950s. When the GOP veered right with Barry Goldwater's candidacy, and Lyndon Johnson tacked left with the inclusionary policies of the Civil Rights Act and the War on Poverty, much of the business establishment went with Johnson.

Richard Nixon was one of the last Republican leaders to embrace the mixed economy, and embrace it he did. Nixon's efforts to fashion a new majority involved positioning himself to the right of Democrats on issues of race and crime, but he was willing to be a moderate, even an activist, on matters related to the economy. He supported major extensions of the regulatory state, including big new initiatives for environmental and consumer protection. He favored a guaranteed annual income, a huge expansion of Social Security, and health-care reforms way to the left of what Bill Clinton or Barack Obama ever proposed.

Nixon's moderation was driven in part by political calculations. Encouraged by Daniel Patrick Moynihan, one of his leading advisers on domestic policy, he took the nineteenth-century British prime minister Benjamin Disraeli's "liberal Tory" stance as a model and sought to appeal to working-class and middle-class whites with his support for social insurance and his cautious backing of many of the new regulatory measures coming out of a Democratic Congress. But it wasn't all politics. Nixon accepted the notion that in a large and complex society, government had a fundamental role to play in fostering economic growth and social prosperity. This went beyond the macroeconomic management of boom-and-bust cycles and incorporated support for collective bargaining, extensive social insurance and a reasonable social safety net, the provision of crucial public goods, and interventions to tackle thorny market failures.

As the 1970s continued, however, the mixed economy came under concerted attack by a more powerful and more radical economic elite. At first, the economic and ideological components of this challenge were largely independent of each other. But over time they fused, as the increasing dominance of market-fundamentalist thinking on the right encouraged shifts in corporate behavior and public policy that exacerbated the intellectual and economic distinctiveness of the United States' new economic elite: the deregulation of finance, the slashing of top federal tax rates, growing links between the financial and the corporate sectors, an upward spiral of executive pay. An industry of enablers sprang up, with journalists and think tanks and professional associations and lobbyists all helping push the new line, and eventually the movement captured its biggest prize, the Republican Party.

Once the door opened to the new antigovernment stance, policy and profit seeking reinforced each other.

Ideas were crucial, especially in the initial right turn. Within conservative political and intellectual circles and in corporate boardrooms, elements of the fringe libertarian views of the novelist and philosopher Ayn Rand gained prominence. Randian thinking came in both soft and hard forms (an obsession with deficits, say, versus die-hard opposition to taxes and government spending), but in both forms, it had important implications for U.S. understandings of shared prosperity. The valorization of shareholders (even if it was often a cover for the acquisitive aims of top executives or investors planning hostile takeovers) challenged the notion that wealth was a social creation that rested on the efforts of multiple stakeholders, including labor and government. Instead, it implied that prosperity was generated solely by entrepreneurs and investors, thanks to their creativity and daring. In its radical manifestation, it even became something of a conspiracy theory, dividing the world into a persecuted minority that heroically generates prosperity and a freeloading majority that uses government to steal from this small, creative elite.

These ideas began to gain credence with the emergence of "stagflation," a stubborn combination of high inflation and economic stagnation that plagued the country in the second half of the 1970s and seemed to rebut the notion that government could manage the economy effectively. But what occurred was not simply an ideological shift; opposition to the mixed economy took off because it intersected with and guided powerful economic interests that were themselves gaining political influence. Facing meager profits and depressed stock prices, business leaders mobilized to lobby Washington as never before. They accepted the diagnosis offered by the new market fundamentalists that the source of their woes was not foreign competition or deindustrialization or hostile financial players but rather unions and government intervention in the economy.

The conservative elite's turn against the mixed economy just kept going and going.

Once the door opened to the new antigovernment stance, policy and profit seeking reinforced each other. The free-market movement advocated financial deregulation and tax cuts, and these policies helped fuel a rapid and sweeping shift in corporate America. Companies faced intense pressure to become better integrated into an expanding global economy. Even more important, they faced intense pressure to become better integrated into an expanding financial sector. As corporate America orbited ever closer to Wall Street, it adopted Wall Street's priorities as its own: immediate stock returns, corporate financial engineering, and extremely high executive pay closely tied to share prices. Meanwhile, the constraint on top management created by organized labor was rapidly weakening, as unions struggled in an increasingly hostile climate.

The result was not just enormous fortunes going to a narrower and narrower slice of executives. It was also an enormous shift in power toward a new corporate elite that was much more hostile to the mixed economy, much less constrained by moderates in government or by organized labor, and much more in tune with the new celebration of the market.

In retrospect, the economic tumult of the 1970s looks less baffling than it did at the time. The surge of inflation reflected both singular shocks (notably, the 1973–74 OPEC oil embargo) and obvious policy mistakes (Johnson's guns-and-butter spending and Nixon's urging of loose monetary policy to secure his reelection). Productivity growth slowed as the burst of economic activity after World War II gave way to the more normal expansion of rich countries at the edge of the technological frontier. And the United States faced greater competition from its affluent trading partners as they recovered from wartime devastation.

But inflation captured the public's attention and drove the increasingly panicked national debate, eventually leading Jimmy Carter to appoint the prominent inflation hawk Paul Volcker to head the Federal Reserve. As expected, he raised interest rates sharply, triggering the worst economic downturn since the 1930s. Not only did the recession probably cost Carter the 1980 election; it battered the economic reputation of the Democratic Party. The episode paved the way for Ronald Reagan to pursue a very different vision of government's relationship to the economy.

But however sobering the economic challenges of the 1970s might have been, they did not need to tarnish the entire edifice of the mixed economy. Getting macroeconomic policy on a sounder track and confronting heightened foreign competition did not require unwinding government's constructive role in ensuring broad prosperity. The social institution of the mixed economy could have been updated; the balance between effective public authority and dynamic private markets could have been recalibrated rather than rejected. Nor did popular pressures demand radical change. Voters may have turned right as inflation increased, but the conservative shift in public opinion was short lived. It was the conservative elite's turn against the mixed economy that just kept going and going, even intensifying over time, and it was that which ended up bankrolling and driving the ideological warfare that ensued.

BACK TO THE FUTURE

When Eisenhower delivered his first State of the Union address, he drew on a broad reservoir of support for the mixed economy. He took for granted that government made fundamental contributions to shared prosperity. Those within his party who thought otherwise were marginalized. Business leaders, too, recognized that they had to engage with government and labor as partners. Many genuinely accepted the partnership, but all understood that they had to accommodate it.

Forty years later, when Clinton took the podium to deliver his inaugural address, the world looked different. The reservoir of enthusiasm for government was dry, baked away by the relentless attacks on government that politicians of both parties had found were the surest way to gain national office. Declining public trust eroded support for active government and created a political vacuum that powerful private interests filled. A revitalized Republican Party led the assault. Yet even the party of government—and those, such as Clinton, who led it—found the spiral of anti-Washington sentiment hard to escape, especially as those powerful private interests became increasingly central sources of financial support.

The corporate world had changed as well. The financial restructuring that had begun in the 1980s had reshaped the character, leadership, and culture of American business. Among those favored by these changes, older understandings of what produced prosperity had given way to new conceptions of the relationship between business and government, the process of wealth creation, and the contribution of managers versus workers—conceptions sharply at odds with those supporting the mixed economy. In the new corporate world, business leaders who praised the active role of government or were willing to engage with political leaders to pursue broad prosperity were harder to find.

In this new climate, the excesses and inadequacies of government loomed larger than its benefits. Some of this frustration was, and continues to be, entirely legitimate. American government has indeed become less effective. The lawmaking process has become dysfunctional. Public policy is more beholden to narrow and deep-pocketed interests. Political attacks and pervasive public distrust make government less capable, which in turn provides fodder for more attacks and greater distrust. That this vicious cycle has been pushed along by smear attacks and sabotage campaigns does not make it any less real.

But just because government often performs tasks less well than it could or should doesn't mean that we would be better off without it, or even with less of it. The net benefits of modern government are enormous—at the level of major programs and, even more clearly, at the level of governance as a whole.

The mixed economy remains a spectacular achievement. Over the past century, the United States and other advanced democratic countries leapt across the Great Divide. They broke from the entirety of prior human existence, in which life was nasty, brutish, and short for almost everyone, and entered an era in which most citizens could look forward to long lives, a real education, and previously unimaginable material comfort. By combining the power of markets with a strong dose of public authority, they achieved unprecedented affluence.

The good news, moreover, is that these positive-sum achievements don't have to stop coming. Despite today's pessimism, many opportunities to make society better off still beckon, in part because for decades Washington has not been using government to best effect. But the bad news is that for this to happen, the nation's ideological and political climate must begin to shift, and the great American amnesia must finally lift.

Many changes have swept the U.S. economy since the 1970s. Yet the country's biggest problem is not a lack of attractive policy options. The United States' biggest problem is its politics. Roads, bridges, and transportation networks can be rebuilt, scientific research can flourish, and educational funding can be provided from early childhood through college—if only there were a renewed commitment to using activist government on behalf of the public good. The growth of health-care spending could be slowed, pollution could be diminished further, renewable energy could be sped toward feasibility. It is possible for Americans to live in a society that is not just fairer and more contented but richer as well. There may not be a free lunch, but there are lots of cheap, delicious, and highly nutritional lunches just waiting to be eaten, simply by returning to the mixed-economy playbook of a couple of generations ago, with appropriate updating for what has been learned since then.

In many specific areas, of course, Americans still believe that the public sector has a vital role. They support government regulation of the environment and government funding of education. They strongly endorse Social Security, Medicare, and most other social programs. They believe that political leaders have a responsibility to manage the economy. What has changed is that voters have become profoundly skeptical that government has the capacity or inclination to foster broad prosperity, especially when doing so requires it to take on new or newly intensified challenges or confront powerful entrenched interests. To build a mixed economy for the twenty-first century, a critical mass of citizens—and their leaders—has to believe once again that government can address their most pressing concerns.

The framing of "government versus the market" has become so ubiquitous in modern culture that most Americans now take it for granted. The hostility of the right is unceasing and mostly unanswered. Eloquent leaders often defend individual programs but too rarely defend the vital need for effective governance. Politicians facing electoral pressures participate in a spiral of silence. Chastened by government's low standing, they reinforce rather than try to reverse it.

Rhetoric is only one part of the problem. Cowed policymakers also design programs that send much the same message. The political scientist Suzanne Mettler has documented the increasing tendency to "submerge" policies so that the role of government is hidden from those who receive benefits. These subterranean policies include tax breaks for private savings for education and retirement and a reliance on private companies and contractors even when these proxies are less efficient than public provision. These submerged benefits are usually bad policies. More important, they are even worse politics. Voters who don't recognize government in action are not likely to appreciate what government does. Nor are they likely to form an accurate picture of government's role, seeing only its visible redistribution and not the vast number of ways in which it enables prosperity.

To get to that more realistic starting point will require a serious and prolonged investment in ideas. The crisis of public authority is a consequence of orchestrated, persistent efforts to tear down government and a long spiral of silence in response. To shake free of the amnesia about the benefits of a mixed economy and rebalance the national conversation will take many years of leadership and activism. The intellectual and organizational foundations of effective public authority will have to be rebuilt. Reform must be a multifront, interdependent effort in which robust but realistic steps steadily build trust and momentum toward a revitalized mixed economy.

The specific arrangements that enabled the U.S. economic model of the last century are dead and buried. But it is possible to build a new model for economic success, on new political foundations, to deepen prosperity in the twenty-first century. And today's complex and interdependent knowledge economy offers tremendous opportunities for positive-sum bargains that will strengthen both U.S. capitalism and the health of U.S. society. Grasping these opportunities, however, requires a mixed economy—the strong thumb of government as well as the nimble fingers of the market. This is the truth that both history and economic theory confirm: the government that governs best needs to govern quite a bit.

Return to Table of Contents

The Once and Future Superpower

Why China Won't Overtake the United States

Stephen G. Brooks and William C. Wohlforth

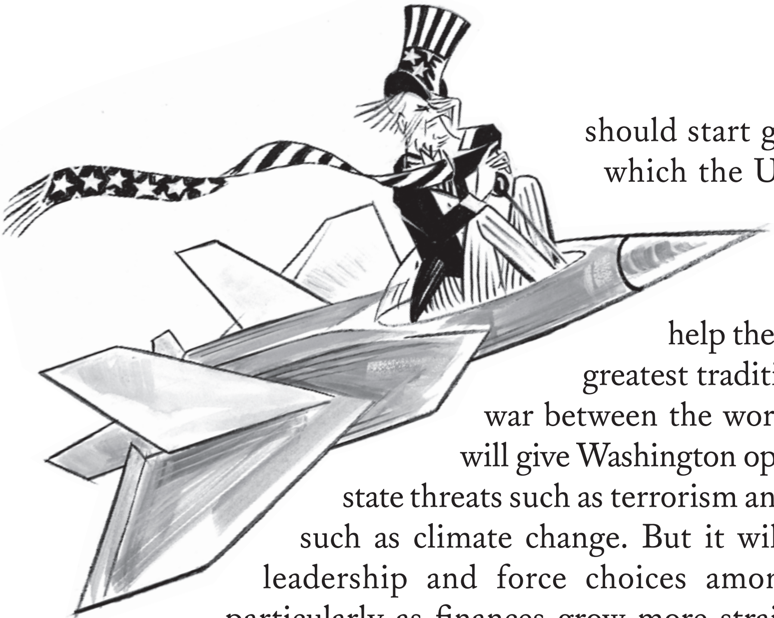
After two and a half decades, is the United States' run as the world's sole superpower coming to an end? Many say yes, seeing a rising China ready to catch up to or even surpass the United States in the near future. By many measures, after all, China's economy is on track to become the world's biggest, and even if its growth slows, it will still outpace that of the United States for many years. Its coffers overflowing, Beijing has used its new wealth to attract friends, deter enemies, modernize its military, and aggressively assert sovereignty claims in its periphery. For many, therefore, the question is not whether China will become a superpower but just how soon.

But this is wishful, or fearful, thinking. Economic growth no longer translates as directly into military power as it did in the past, which means that it is now harder than ever for rising powers to rise and established ones to fall. And China—the only country with the raw potential to become a true global peer of the United States—also faces a more daunting challenge than previous rising states because of how far it lags behind technologically. Even though the United States' economic dominance has eroded from its peak, the country's military superiority is not going anywhere, nor is the globe-spanning alliance structure that constitutes the core of the existing liberal international order (unless Washington unwisely decides to throw it away). Rather than expecting a power transition in international politics, everyone

STEPHEN G. BROOKS is Associate Professor of Government at Dartmouth College.

WILLIAM C. WOHLFORTH is Daniel Webster Professor of Government at Dartmouth College.

This article is adapted from their forthcoming book *America Abroad: The United States' Global Role in the 21st Century* (Oxford University Press, 2016).



should start getting used to a world in which the United States remains the sole superpower for decades to come.

Lasting preeminence will help the United States ward off the greatest traditional international danger, war between the world's major powers. And it will give Washington options for dealing with nonstate threats such as terrorism and transnational challenges such as climate change. But it will also impose burdens of leadership and force choices among competing priorities, particularly as finances grow more straitened. With great power comes great responsibility, as the saying goes, and playing its leading role successfully will require Washington to display a maturity that U.S. foreign policy has all too often lacked.

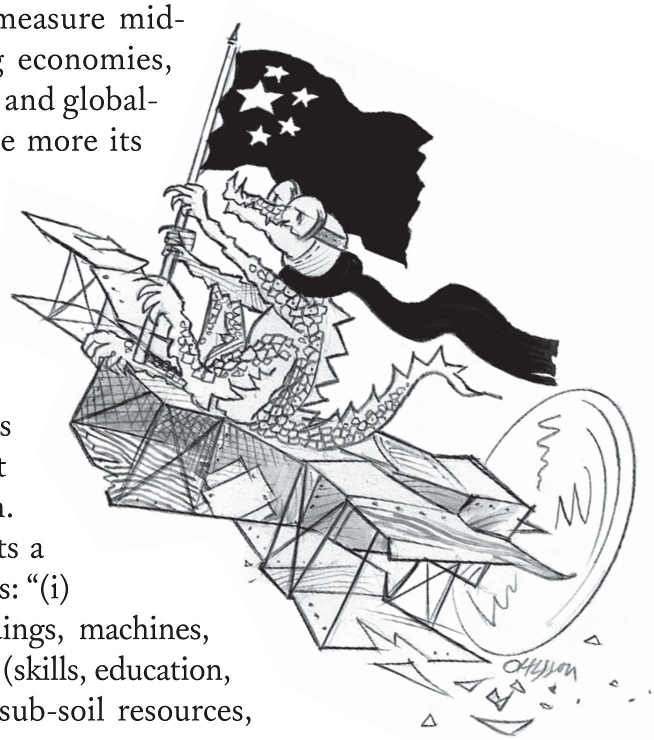
THE WEALTH OF NATIONS

In forecasts of China's future power position, much has been made of the country's pressing domestic challenges: its slowing economy, polluted environment, widespread corruption, perilous financial markets, nonexistent social safety net, rapidly aging population, and restive middle class. But as harmful as these problems are, China's true Achilles' heel on the world stage is something else: its low level of technological expertise compared with the United States'. Relative to past rising powers, China has a much wider technological gap to close with the leading power. China may export container after container of high-tech goods, but in a world of globalized production, that doesn't reveal much. Half of all Chinese exports consist of what economists call "processing trade," meaning that parts are imported into China for assembly and then exported afterward. And the vast majority of these Chinese exports are directed not by Chinese firms but by corporations from more developed countries.

When looking at measures of technological prowess that better reflect the national origin of the expertise, China's true position becomes clear. World Bank data on payments for the use of intellectual property, for example, indicate that the United States is far and away the leading source of innovative technologies, boasting $128 billion in receipts in 2013—more than four times as much as the country in second place, Japan. China, by contrast, imports technologies on a massive scale yet received less than $1 billion in receipts in 2013 for the use of its intellectual property. Another good indicator of the technological gap is the number of so-called triadic patents, those registered in the United States, Europe, and Japan. In 2012, nearly 14,000 such patents originated in the United States, compared with just under 2,000 in China. The distribution of highly influential articles in science and engineering—those in the top one percent of citations, as measured by the National Science Foundation—tells the same story, with the United States accounting for almost half of these articles, more than eight times China's share. So does the breakdown of Nobel Prizes in Physics, Chemistry, and Physiology or Medicine. Since 1990, 114 have gone to U.S.-based researchers. China-based researchers have received two.

Precisely because the Chinese economy is so unlike the U.S. economy, the measure fueling expectations of a power shift, GDP, greatly underestimates the true economic gap between the two countries. For one thing, the immense destruction that China is now wreaking on its environment counts favorably toward its GDP, even though it will reduce economic capacity over time by shortening life spans and raising cleanup and health-care costs. For another thing, GDP was originally designed to measure mid-twentieth-century manufacturing economies, and so the more knowledge-based and globalized a country's production is, the more its GDP underestimates its economy's true size.

A new statistic developed by the UN suggests the degree to which GDP inflates China's relative power. Called "inclusive wealth," this measure represents economists' most systematic effort to date to calculate a state's wealth. As a UN report explained, it counts a country's stock of assets in three areas: "(i) manufactured capital (roads, buildings, machines, and equipment), (ii) human capital (skills, education, health), and (iii) natural capital (sub-soil resources,



ecosystems, the atmosphere)." Added up, the United States' inclusive wealth comes to almost $144 trillion—4.5 times China's $32 trillion.

The true size of China's economy relative to the United States' may lie somewhere in between the numbers provided by GDP and inclusive wealth, and admittedly, the latter measure has yet to receive the same level of scrutiny as GDP. The problem with GDP, however, is that it measures a flow (typically, the value of goods and services produced in a year), whereas inclusive wealth measures a stock. As *The Economist* put it, "Gauging an economy by its GDP is like judging a company by its quarterly profits, without ever peeking at its balance-sheet." Because inclusive wealth measures the pool of resources a government can conceivably draw on to achieve its strategic objectives, it is the more useful metric when thinking about geopolitical competition.

But no matter how one compares the size of the U.S. and Chinese economies, it is clear that the United States is far more capable of converting its resources into military might. In the past, rising states had levels of technological prowess similar to those of leading ones. During the late nineteenth and early twentieth centuries, for example, the United States didn't lag far behind the United Kingdom in terms of technology, nor did Germany lag far behind the erstwhile Allies during the interwar years, nor was the Soviet Union backward technologically compared with the United States during the early Cold War. This meant that when these challengers rose economically, they could soon mount a serious military challenge to the dominant power. China's relative technological backwardness today, however, means that even if its economy continues to gain ground, it will not be easy for it to catch up militarily and become a true global strategic peer, as opposed to a merely a major player in its own neighborhood.

BARRIERS TO ENTRY

The technological and economic differences between China and the United States wouldn't matter much if all it took to gain superpower status were the ability to use force locally. But what makes the United States a superpower is its ability to operate globally, and the bar for that capability is high. It means having what the political scientist Barry Posen has called "command of the commons"—that is, control over the air, space, and the open sea, along with the necessary infrastructure for managing these domains. When one measures the 14 categories of systems that create this capability (everything from nuclear attack submarines to satellites to transport aircraft), what emerges is an overwhelming U.S. advantage in each area, the result of decades of advances on multiple fronts. It would take a very long time for China to approach U.S. power on any of these fronts, let alone all of them.

For one thing, the United States has built up a massive scientific and industrial base. China is rapidly enhancing its technological inputs, increasing its R & D spending and its numbers of graduates with degrees in science and engineering. But there are limits to how fast any country can leap forward in such matters, and there are various obstacles in China's way—such as a lack of effective intellectual property protections and inefficient methods of allocating capital—that will be extremely hard to change given its rigid political system. Adding to the difficulty, China is chasing a moving target. In 2012, the United States spent $79 billion on military R & D, more than 13 times as much as China's estimated amount, so even rapid Chinese advances might be insufficient to close the gap.

A giant economy alone won't make China the world's second superpower.

Then there are the decades the United States has spent procuring advanced weapons systems, which have grown only more complex over time. In the 1960s, aircraft took about five years to develop, but by the 1990s, as the number of parts and lines of code ballooned, the figure reached ten years. Today, it takes 15 to 20 years to design and build the most advanced fighter aircraft, and military satellites can take even longer. So even if another country managed to build the scientific and industrial base to develop the many types of weapons that give the United States command of the commons, there would be a lengthy lag before it could actually possess them. Even Chinese defense planners recognize the scale of the challenge.

Command of the commons also requires the ability to supervise a wide range of giant defense projects. For all the hullabaloo over the evils of the military-industrial complex and the "waste, fraud, and abuse" in the Pentagon, in the United States, research labs, contractors, and bureaucrats have painstakingly acquired this expertise over many decades, and their Chinese counterparts do not yet have it. This kind of "learning by doing" experience resides in organizations, not in individuals. It can be transferred only through demonstration and instruction, so cybertheft or other forms of espionage are not an effective shortcut for acquiring it.

China's defense industry is still in its infancy, and as the scholar Richard Bitzinger and his colleagues have concluded, "Aside from a few pockets of excellence such as ballistic missiles, the Chinese military-industrial complex has appeared to demonstrate few capacities for designing and producing relatively advanced conventional weapon systems." For example, China still cannot mass-produce high-performance aircraft engines, despite the immense resources it has thrown at the effort, and relies instead on second-rate Russian models. In other areas, Beijing has not even bothered competing. Take undersea warfare. China is poorly equipped for antisubmarine warfare and is doing very little to improve. And only now is the country capable of producing nuclear-powered attack submarines that are comparable in quietness to the kinds that the U.S. Navy commissioned in the 1950s. Since then, however, the U.S. government has invested hundreds of billions of dollars and six decades of effort in its current generation of Virginia-class submarines, which have achieved absolute levels of silencing.

Finally, it takes a very particular set of skills and infrastructure to actually use all these weapons. Employing them is difficult not just because the weapons themselves tend to be so complex but also because they typically need to be used in a coordinated manner. It is an incredibly complicated endeavor, for example, to deploy a carrier battle group; the many associated ships and aircraft must work together in real time. Even systems that may seem simple require a complex surrounding architecture in order to be truly effective. Drones, for example, work best when a military has the highly trained personnel to operate them and the technological and organizational capacity to rapidly gather, process, and act on information collected from them. Developing the necessary infrastructure to seek command of the commons would take any military a very long time. And since the task places a high premium on flexibility and delegation, China's centralized and hierarchical forces are particularly ill suited for it.

THIS TIME IS DIFFERENT

In the 1930s alone, Japan escaped the depths of depression and morphed into a rampaging military machine, Germany transformed from the disarmed loser of World War I into a juggernaut capable of conquering Europe, and the Soviet Union recovered from war and revolution to become a formidable land power. The next decade saw the United States' own sprint from military also-ran to global superpower, with a nuclear Soviet Union close on its heels. Today, few seriously anticipate another world war, or even another cold war, but many observers argue that these past experiences reveal just how quickly countries can become dangerous once they try to extract military capabilities from their economies.

But what is taking place now is not your grandfather's power transition. One can debate whether China will soon reach the first major milestone on the journey from great power to superpower: having the requisite economic resources. But a giant economy alone won't make China the world's second superpower, nor would overcoming the next big hurdle, attaining the requisite technological capacity. After that lies the challenge of transforming all this latent power into the full range of systems needed for global power projection and learning how to use them. Each of these steps is time consuming and fraught with difficulty. As a result, China will, for a long time, continue to hover somewhere between a great power and a superpower. You might call it "an emerging potential superpower": thanks to its economic growth, China has broken free from the great-power pack, but it still has a long way to go before it might gain the economic and technological capacity to become a superpower.

This is not your grandfather's power transition.

China's quest for superpower status is undermined by something else, too: weak incentives to make the sacrifices required. The United States owes its far-reaching military capabilities to the existential imperatives of the Cold War. The country would never have borne the burden it did had policymakers not faced the challenge of balancing the Soviet Union, a superpower with the potential to dominate Eurasia. (Indeed, it is no surprise that two and a half decades after the Soviet Union collapsed, it is Russia that possesses the second-greatest military capability in the world.) Today, China faces nothing like the Cold War pressures that led the United States to invest so much in its military. The United States is a far less threatening superpower than the Soviet Union was: however aggravating Chinese policymakers find U.S. foreign policy, it is unlikely to engender the level of fear that motivated Washington during the Cold War.

Stacking the odds against China even more, the United States has few incentives to give up power, thanks to the web of alliances it has long boasted. A list of U.S. allies reads as a who's who of the world's most advanced economies, and these partners have lowered the price of maintaining the United States' superpower status. U.S. defense spending stood at around three percent of GDP at the end of the 1990s, rose to around five percent in the next decade on account of the wars in Afghanistan and Iraq, and has now fallen back to close to three percent. Washington has been able to sustain a global military capacity with relatively little effort thanks in part to the bases its allies host and the top-end weapons they help develop. China's only steadfast ally is North Korea, which is often more trouble than it is worth.

Given the barriers thwarting China's path to superpower status, as well as the low incentives for trying to overcome them, the future of the international system hinges most on whether the United States continues to bear the much lower burden of sustaining what we and others have called "deep engagement," the globe-girdling grand strategy it has followed for some 70 years. And barring some odd change of heart that results in a true abnegation of its global role (as opposed to overwrought, politicized charges sometimes made about its already having done so), Washington will be well positioned for decades to maintain the core military capabilities, alliances, and commitments that secure key regions, backstop the global economy, and foster cooperation on transnational problems.

A world of lasting U.S. military preeminence and declining U.S. economic dominance will test the United States' capacity for restraint.

The benefits of this grand strategy can be difficult to discern, especially in light of the United States' foreign misadventures in recent years. Fiascos such as the invasion of Iraq stand as stark reminders of the difficulty of using force to alter domestic politics abroad. But power is as much about preventing unfavorable outcomes as it is about causing favorable ones, and here Washington has done a much better job than most Americans appreciate.

For a largely satisfied power leading the international system, having enough strength to deter or block challengers is in fact more valuable than having the ability to improve one's position further on the margins. A crucial objective of U.S. grand strategy over the decades has been to prevent a much more dangerous world from emerging, and its success in this endeavor can be measured largely by the absence of outcomes common to history: important regions destabilized by severe security dilemmas, tattered alliances unable to contain breakout challengers, rapid weapons proliferation, great-power arms races, and a descent into competitive economic or military blocs.

Were Washington to truly pull back from the world, more of these challenges would emerge, and transnational threats would likely loom even larger than they do today. Even if such threats did not grow, the task of addressing them would become immeasurably harder if the United States had to grapple with a much less stable global order at the same time. And as difficult as it sometimes is today for the United States to pull together coalitions to address transnational challenges, it would be even harder to do so if the country abdicated its leadership role and retreated to tend its garden, as a growing number of analysts and policymakers—and a large swath of the public—are now calling for.

LEAD US NOT INTO TEMPTATION

Ever since the Soviet Union's demise, the United States' dramatic power advantage over other states has been accompanied by the risk of self-inflicted wounds, as occurred in Iraq. But the slippage in the United States' economic position may have the beneficial effect of forcing U.S. leaders to focus more on the core mission of the country's grand strategy rather than being sucked into messy peripheral conflicts. Indeed, that has been the guiding logic behind President Barack Obama's foreign policy. Nonetheless, a world of lasting U.S. military preeminence and declining U.S. economic dominance will continue to test the United States' capacity for restraint, in four main ways.

First is the temptation to bully or exploit American allies in the pursuit of self-interested gain. U.S. allies are dependent on Washington in many ways, and leaning on them to provide favors in return—whether approving of controversial U.S. policies, refraining from activities the United States opposes, or agreeing to lopsided terms in mutually beneficial deals—seems like something only a chump would forgo. (Think of the Republican presidential candidate Donald Trump's frequent claims that the United States always loses in its dealings with foreigners, including crucial allies, and that he would restore the country's ability to win.) But the basic contract at the heart of the contemporary international order is that if its members put aside the quest for relative military advantage, join a dense web of institutional networks, and agree to play by common rules, then the United States will not take advantage of its dominance to extract undue returns from its allies. It would be asking too much to expect Washington to never use its leverage to seek better deals, and a wide range of presidents—including John F. Kennedy, Ronald Reagan, George W. Bush, and Obama—have done so at various times. But if Washington too often uses its power to achieve narrowly self-interested gains, rather than to protect and advance the system as a whole, it will run a real risk of eroding the legitimacy of both its leadership and the existing order.

Second, the United States will be increasingly tempted to overreact when other states—namely, China—use their growing economic clout on the world stage. Most of the recent rising powers of note, including Germany, Japan, and the Soviet Union, were stronger militarily than economically. China, by contrast, will for decades be stronger economically than militarily. This is a good thing, since military challenges to global order can turn ugly quickly. But it means that China will mount economic challenges instead, and these will need to be handled wisely. Most of China's efforts along these lines will likely involve only minor or cosmetic alterations to the existing order, important for burnishing Beijing's prestige but not threatening to the order's basic arrangements or principles. Washington should respond to these gracefully and with forbearance, recognizing that paying a modest price for including Beijing within the order is preferable to risking provoking a more fundamental challenge to the structure in general.

The recent fracas over the Asian Infrastructure Investment Bank is a good example of how not to behave. China proposed the AIIB in 2013 as a means to bolster its status and provide investment in infrastructure in Asia. Although its criteria for loans might turn out to be less constructive than desired, it is not likely to do major harm to the region or undermine the structure of the global economy. And yet the United States responded by launching a public diplomatic campaign to dissuade its allies from joining. They balked at U.S. opposition and signed up eagerly. By its reflexive opposition both to a relatively constructive Chinese initiative and to its allies' participation in it,

Washington created an unnecessary zero-sum battle that ended in a humiliating diplomatic defeat. (A failure by the U.S. Congress to pass the Trans-Pacific Partnership as negotiated, meanwhile, would be an even greater fiasco, leading to serious questions abroad about U.S. global leadership.)

Third, the United States will still face the temptation that always accompanies power, to intervene in places where its core national interests are not in play (or to expand the definition of its core national interests so much as to hollow out the concept). That temptation can exist in the midst of a superpower struggle—the United States got bogged down in Vietnam during the Cold War, as did the Soviet Union in Afghanistan—and it clearly exists today, at a time when the United States has no peer rivals. Obama has carefully guarded against this temptation. He attracted much criticism for elevating "Don't do stupid stuff" to a grand-strategic maxim. But if doing stupid stuff threatens the United States' ability to sustain its grand strategy and associated global presence, then he had a point. Missing, though, was a corollary: "Keep your eye on the ball." And for nearly seven decades, that has meant continuing Washington's core mission of fostering stability in key regions and keeping the global economy and wider order humming.

Finally, Washington will need to avoid adopting overly aggressive military postures even when core interests are at stake, such as with China's increasingly assertive stance in its periphery. It is true that Beijing's "anti-access/area-denial" capabilities have greatly raised the costs and risks of operating U.S. aircraft and surface ships (but not submarines) near China. How Washington should respond to Beijing's newfound local military capability, however, depends on what Washington's strategic goals are. To regain all the military freedom of action the United States enjoyed during its extraordinary dominance throughout the 1990s would indeed be difficult, and the actions necessary would increase the risk of future confrontations. Yet if Washington's goals are more limited—securing regional allies and sustaining a favorable institutional and economic order—then the challenge should be manageable.

By adopting its own area-denial strategy, for example, the United States could still deter Chinese aggression and protect U.S. allies despite China's rising military power. Unlike the much-discussed Air-Sea Battle doctrine for a Pacific conflict, this approach would not envision hostilities rapidly escalating to strikes on the Chinese mainland. Rather, it would be designed to curtail China's ability during a conflict to operate within what is commonly known as "the first island chain," encompassing parts of Japan, the Philippines, and Taiwan. Under this strategy, the United States and its allies would employ the same mix of capabilities—such as mines and mobile antiship missiles—that China itself has used to push U.S. surface ships and aircraft away from its coast. And it could turn the tables and force China to compete in areas where it remains very weak, most notably, undersea warfare.

By adopting its own area-denial strategy, the United States could still deter Chinese aggression and protect U.S. allies.

The premise of such a strategy is that even if China were able to deny U.S. surface forces and aircraft access to the area near its coast, it would not be able to use that space as a launching pad for projecting military power farther during a conflict. China's coastal waters, in this scenario, would turn into a sort of no man's sea, in which neither state could make much use of surface ships or aircraft. This would be a far cry from the situation that prevailed during the 1990s, when China could not stop the world's leading military power from enjoying unfettered access to its airspace and ocean right up to its territorial border. But the change needs to be put in perspective: it is only natural that after spending tens of billions of dollars over decades, China has begun to reverse this unusual vulnerability, one the United States would never accept for itself.

While this area-denial strategy would help solve a long-term problem, it would do little to address the most immediate challenge from China: the military facilities it is steadily building on artificial islands in the South China Sea. There is no easy answer, but Washington should avoid too aggressive a reaction, which could spark a conflict. After all, these small, exposed islands arguably leave the overall military balance unchanged, since they would be all but impossible to defend in a conflict. China's assertiveness may even be backfiring. Last year, the Philippines—real islands with extremely valuable basing facilities—welcomed U.S. forces back onto its shores after a 24-year absence. And the United States is now in talks to base long-range bombers in Australia.

To date, the Obama administration has chosen to conduct so-called freedom-of-navigation operations in order to contest China's maritime claims. But as the leader of the order it largely shaped, the United States has many other arrows in its quiver. To place the burden of escalation on China, the United States—or, even better, its allies—could take a page from China's playbook and ramp up quasi-official research voyages in the area. Another asset Washington has is international law. Pressure is mounting on China to submit its territorial disputes to arbitration in international courts, and if Beijing continues to resist doing so, it will lose legitimacy and could find itself a target of sanctions and other diplomatic punishments. And if Beijing tried to extract economic gains from contested regions, Washington could facilitate a process along the lines of the proportional punishment strategy it helped make part of the World Trade Organization: let the Permanent Court of Arbitration, in The Hague, determine the gains of China's illegal actions, place a temporary tariff on Chinese exports to collect exactly that much revenue while the sovereignty claims are being adjudicated, and then distribute them once the matter is settled before the International Court of Justice. Whatever approach is adopted, what matters for U.S. global interests is not the islands themselves or the nature of the claims per se but what these provocations do to the wider order.

Although China can "pose problems without catching up," in the words of the political scientist Thomas Christensen, the bottom line is that the United States' global position gives it room to maneuver. The key is to exploit the advantages of standing on the defensive: as a raft of strategic thinkers have pointed out, challenging a settled status quo is very hard to do.

KNOW THYSELF

Despite China's ascent, the United States' superpower position is more secure than recent commentary would have one believe—so secure, in fact, that the chief threat to the world's preeminent power arguably lies within. As U.S. dominance ebbs slightly from its peak two decades ago, Washington may be tempted to overreact to the setbacks inherent in an admittedly frustrating and hard-to-manage world by either lashing out or coming home—either way abandoning the patient and constructive approach that has been the core of its grand strategy for many decades. This would be a grave mistake. That grand strategy has been far more successful and beneficial than most people realize, since they take for granted its chief accomplishment—preventing the emergence of a much less congenial world.

One sure way to generate a wrong-headed push for retrenchment would be to undertake another misadventure like the war in Iraq. That America has so far weathered that disaster with its global position intact is a testament to just how robust its superpower status is. But that does not mean that policymakers can make perpetual blunders with impunity. In a world in which the United States retains its overwhelming military preeminence as its economic dominance slips, the temptation to overreact to perceived threats will grow—even as the margin of error for absorbing the costs of the resulting mistakes will shrink. Despite what is being said on the campaign trail these days, the United States is hardly in an unusually perilous global situation. But nor is its standing so secure that irresponsible policies by the next president won't take their toll.

Return to Table of Contents

The Fed's Unconventional Monetary Policy

Why Danger Lies Ahead

Martin Feldstein

Now, almost a decade after the Great Recession hit, the story of its origins and course has become familiar. It began in December 2007, soon after the U.S. housing bubble burst, triggering the widespread collapse of the U.S. financial system. Credit dried up, as banks lost confidence in the value of their assets and stopped lending to one another. Consumer spending plummeted. At first, the U.S. Federal Reserve tried to boost spending through traditional monetary policy, by reducing short-term interest rates. Yet this proved ineffective, even though short-term interest rates fell close to zero. The government then turned to fiscal stimulus, with Congress passing a package of tax cuts and spending increases in 2009, but this, too, proved ineffectual.

After both standard monetary and fiscal policy had failed, the Federal Reserve turned to what it calls "unconventional monetary policy," aiming to lower long-term interest rates by purchasing long-term financial assets and promising to keep short-term rates close to zero for a long period of time. This policy paid off, and the U.S. economy has at last rebounded. Today, the overall unemployment rate has dropped below five percent, and unemployment among college graduates stands at just 2.5 percent. The European Central Bank (ECB) followed the United States' lead with massive bond purchases and extremely low interest rates (short-term interest rates are actually negative in many of the eurozone countries). Europe thus also began to dig itself out of recession, but its policy is not proving nearly as effective as similar moves did in the United States.

MARTIN FELDSTEIN is George F. Baker Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research. He was Chair of the Council of Economic Advisers from 1982 to 1984.

What is now clear, however, is that unconventional monetary policy and extremely low interest rates have also created major financial risks that could hurt the European and U.S. economies in the years ahead. These policies have driven up the prices of stocks, low-quality bonds, and commercial real estate, potentially setting the stage for another asset price collapse—the very phenomenon that led to the Great Recession in the first place. Unconventional monetary policy does represent a powerful weapon in a central bank's arsenal. But it is a dangerous strategy, one that policymakers should try to avoid when the next recession hits.

THE BIG SHORT

Economic downturns in the United States generally occur when the Federal Reserve raises interest rates to keep inflation in check. When the Fed's Federal Open Market Committee believes that it has brought inflation under control, it can start to lower rates and reverse the downturn. But the recession that began in the United States at the end of 2007 was unusual: since the Fed did not cause that downturn by tightening monetary policy, it could not reverse it by lowering short-term interest rates. The downturn was the result of the market mispricing assets, including financial assets such as equities and mortgage-backed securities and real assets such as housing.

Between 2000 and 2006, house prices in the United States increased by nearly 60 percent above the long-term trend, driven by very low mortgage interest rates and by lenders who were willing to make loans to "subprime" borrowers. Lenders bundled together many of these subprime mortgage loans and then created investments, or tranches, of varying degrees of risk.

For instance, a bank could take 1,000 subprime mortgage loans (issued to people with low credit scores and a limited capacity to repay) and create separate investment tranches. The riskiest tranche would require the buyer of that investment to bear the losses of the first 100 mortgages to default. If a borrower defaulted, the creditor would seize the house and sell it for a price that was generally much less than the amount owed on the mortgage. That tranche was risky enough that investors would regard it as a junk bond, bearing a high yield.

The second-riskiest investment would require the buyer of that tranche to bear losses only after 100 mortgages had defaulted, up to a total of 200 defaults. Since the probability that more than ten percent of the

Not on my watch: Janet Yellen in Washington, D.C., February 2016

OLIVIER DOULIERY / ABACA (SIPA VIA AP IMAGES)

original 1,000 mortgages would default seemed low, investors considered this second tranche to be safer and gave it a higher rating; as a result, the second tranche had a lower expected rate of return. Banks created additional tranches, each one apparently safer than the last. Investors in the fifth tranche, for example, would bear a loss only if more than 400 of the original 1,000 mortgages defaulted. The probability that more than 40 percent of the mortgages would default seemed so low that rating agencies could assign this tranche a triple-A rating.

When the housing bubble burst, of course, these ratings proved far too optimistic. Widespread defaults on subprime mortgages caused the prices of the seemingly safe mortgage tranches to fall sharply. That drop sent a signal to investors in other, very different securities that investors had underestimated risk, and the prices of many types of assets fell rapidly as a result. The S&P 500 dropped by nearly 20 percent in the 12 months after July 2007 and had lost half its value by March 2009.

Banks and other financial institutions found that it was often impossible to obtain market prices for mortgage-backed securities and other risky assets. Not knowing the value of their own portfolios, they could not judge the solvency and liquidity of other financial institutions either. As a result, they were unwilling to lend to them, and the financial system ground to a halt.

UNCONVENTIONAL WISDOM

As the financial collapse reverberated throughout the economy, the Fed responded in the traditional way. It gradually lowered the short-term federal funds interest rate, the rate at which banks lend money to one another, from 5.3 percent in September 2007 to 4.3 percent in December 2007 (when the downturn officially began). By October 2008, the Fed had pushed the rate below one percent.

In most economic downturns, traditional monetary policy of this kind is enough to bring about a recovery. Those downturns tend to be relatively short—the average time from peak to trough in U.S. business cycles is just ten months—and relatively shallow. To bring about a recovery from these dips, the Fed employs conventional monetary policy, or "open-market operations"—essentially, buying short-term government notes. This policy works by lowering the short-term interest rate and temporarily lowering some longer-term rates as well. Spending that is sensitive to interest rates, such as housing construction, usually picks up. So there is no need to drive down long-term rates by buying bonds and committing to a long period of low rates.

Nor, in a typical downturn, is there any need for fiscal policy, which is both unnecessary and likely to destabilize the economy. Because it can take months for Congress to pass legislation, there are long lags between the start of a downturn and the potential launch of an effective fiscal stimulus. This timing problem means that a fiscal package aimed at ending a short downturn may hit too late, once the economy is already expanding, leading to economic overheating and rising inflation.

But not all downturns are created equal. In the dysfunctional financial environment that prevailed from the end of 2007 onward, traditional open-market operations to reduce short-term rates proved ineffective. Working with the U.S. Treasury, the Fed took a series of additional measures, such as guaranteeing money market funds and buying assets from investors, to prevent widespread financial failures and protect mutual funds. It also bought a large amount of mortgage-backed securities before the end of 2008 to lower mortgage rates and stimulate home buying. But these actions were not sufficient to revive the economy: in 2008, there was still a $700 billion annual shortfall in demand.

Because it soon became clear that this recession was going to be deeper and longer than usual, there was less risk that the government would mistime fiscal policy. So an expansionary fiscal policy was appropriate,

Richard K. Betts

Merit E. Janow

Jan Svejnar

Joseph E. Stiglitz

and in 2009, U.S. President Barack Obama asked Congress for about $300 billion a year in spending increases and tax cuts for three years. But the collapse of consumer spending and home building had created a hole in demand that was much larger than the $300 billion that Congress provided. The administration also designed the stimulus poorly, spending most of it on temporary tax cuts and transfers to states rather than on real government spending that would add to demand, such as infrastructure projects and the repair and replacement of government military and civilian equipment. A better-designed fiscal stimulus might have been able to raise aggregate demand and kick-start a true recovery, but the 2009 Obama plan probably added more to the national debt than it did to economic activity.

Unconventional monetary policy and extremely low interest rates have created major financial risks.

After declining for 18 months, the U.S. economy finally began to grow in June 2009, but only very slowly. And so the Fed concluded that neither traditional monetary policy nor the fiscal policy of the Obama administration was going to achieve an adequate recovery. It responded with the unconventional policy of quantitative easing: buying billions of dollars' worth of long-term bonds and promising to keep short-term rates close to zero for a long period of time.

As Ben Bernanke, then chair of the Federal Reserve, explained, the purpose of this new policy was to lower long-term interest rates so that investors would buy more equities and other riskier assets. The Fed also hoped that the unprecedentedly low interest rate on mortgages would boost house prices. The resulting uptick in household net worth, it expected, would increase consumer spending, thus speeding the recovery. By targeting net worth, quantitative easing would be very different from the traditional monetary policy the Fed had already employed, which aimed to encourage investment and other spending that is sensitive to interest rates.

The strategy worked well. House prices rose by 13 percent from December 2012 to December 2013. The Standard & Poor's measure of equity prices rose by 30 percent during those same 12 months, and the net worth of households grew by $10 trillion. As a result, consumers spent more, which raised the profits and wages of the firms that sold the goods and services they bought. Those higher incomes then led to further increases in consumer spending, lifting overall GDP. In 2013, GDP rose by 2.5 percent, and the unemployment rate fell from 8.0 percent to 6.7 percent.

The impact of quantitative easing on asset prices also proved surprisingly large, because investors acted as if the decline in interest rates was not just temporary but would last more or less indefinitely. This suspension of disbelief was necessary to drive down the interest rate on very long-term bonds and increase the prices of equities. If investors had thought that interest rates would return to normal only a few years later, long-term rates would not have fallen so low, nor would equity prices have risen so much. But as it was, unprecedentedly low interest rates and the rise in equity prices helped end the Great Recession in the United States.

EURO-STAGNATION

Across the Atlantic, the same strategy was not working as well. Like the Fed, the ECB was following a strategy of large-scale asset purchases and extremely low (even negative) short-term interest rates. But the purpose of the ECB's quantitative easing was very different from what the Fed was trying to do. Since the eurozone lacks the widespread stock ownership that exists in the United States, quantitative easing could not stimulate consumer spending by raising household wealth.

Instead, a major unspoken reason for the ECB to lower interest rates was to depress the value of the euro and thus stimulate net exports. Financial investors in Europe sold euros and bought dollars to take advantage of the higher yield on securities denominated in dollars. The euro's value fell from almost $1.40 in the summer of 2014 to $1.06 by the fall of 2015, before rising slightly to $1.12 in early 2016.

But even though a weaker euro has stimulated exports and discouraged imports, it has done little to raise the eurozone's total exports and combined GDP. Most eurozone exports go to fellow members of the monetary union, which use the same currency. Nor have exports to the United States increased much, because European exporters generally invoice their exports in dollars and adjust their dollar prices very slowly. The overall effect has been disappointing: between September 2014 and September 2015, total net exports from the eurozone budged upward only slightly, rising from 17.4 billion euros to 20.2 billion euros in an economy with a GDP of more than 13 trillion euros.

Nor has the ECB's strategy of purchasing bonds to increase the amount of cash banks have to lend seen much success. In contrast to banks in the United States, which are paid a positive interest rate on reserves by the Fed, commercial banks in the eurozone actually lose money when they deposit funds at the ECB. Not surprisingly, then, they do not deposit the funds they acquire from the sale of bonds to the ECB at the central bank. The ECB hopes that the banks will use their cash to increase lending to businesses and consumers. So far, however, bank lending has barely increased, perhaps because of a lack of demand from borrowers and the weakness of the banks' own capital positions.

The eurozone is also having trouble when it comes to inflation, with the rate now sitting at just 0.4 percent. The ECB, fearing a deflationary spiral of declining prices and wages, is eager to raise the eurozone inflation rate to its target of just under two percent. The Federal Reserve also wants to increase the rate of inflation (in addition to achieving maximum employment). The Fed expects its quantitative easing will lift U.S. inflation back to two percent: by increasing real demand and reducing the unemployment rate until employers have to start raising wages to hire new workers, the policy will accelerate inflation. But the ECB, by contrast, will likely struggle to raise the overall inflation rate in the eurozone so long as unemployment remains at more than ten percent, about three percentage points above where it stood before the recession. The ECB's quantitative easing can probably achieve higher inflation only through the decline in the value of the euro and the resulting increase in import prices—a limited process that still leaves core inflation below one percent. The bottom line is that quantitative easing in the eurozone is likely to raise employment and inflation far less than it did in the United States.

THE BUBBLE NEXT TIME

Both the United States and Europe, however, may well eventually pay for their use of unconventional monetary policy. Although the Fed succeeded in boosting wealth and stimulating economic activity, it also increased several risks in financial markets—risks that may create instability when interest rates return to normal.

In the United States, very low interest rates and the Fed's asset purchases drove down the yield on government bonds. In response, investors sought higher returns by buying other, riskier assets, and lenders did the same by issuing more speculative loans. The Fed wanted to promote such risk taking. But as investors have bought up these riskier assets, their prices have risen and their yields fallen—even though the risk of default remains the same. In other words, investors may have overpaid for these assets. And once interest rates return to normal, that mispricing could cause problems such as a stock market decline, as investors sell these riskier stocks and their prices fall.

One sign that investors have mispriced assets can be found by looking at the price-earnings ratios of companies in the S&P 500. The ratios have grown higher than they were before the downturn, and about 30 percent higher than their historic averages, suggesting that considering companies' incomes, their stocks are overvalued. These very high share prices might make sense if interest rates stayed at today's low level forever. But when interest rates rise, as they eventually must, the high price-earnings ratios will no longer be justified, and the stock market will have to correct.

Both the United States and Europe may well eventually pay for their use of unconventional monetary policy.

Investors may be mispricing not only stocks but also commercial real estate. Commercial real estate prices are very high relative to the yields provided by the rents on those properties. When interest rates rise, those yields will be less competitive, causing the value of those properties to fall. And because those investments are financed with borrowed funds, the investors could lose a very large share of their net equity.

Banks and other lenders are also seeking higher returns by lending to riskier borrowers. U.S. Treasury bonds are much safer than low-quality corporate debt, so investors should demand much higher yields on low-quality debt. The large demand for investment in junk debt has for the most part driven its price up and its yield down, so that the spread between the yields on essentially risk-free U.S. Treasury bonds and the yields on low-quality corporate debt has been quite narrow. Banks are also making more loans to less reliable borrowers and more loans that entail few restrictions for the borrowers. If there is an economic downturn, many of these high-risk loans will fail.

Low interest rates have also led to increased lending from the United States to corporate borrowers in emerging markets. Companies in those countries have been tempted by the opportunity to borrow in dollars at historically low rates. Lenders and investors in the United States, meanwhile, like the higher yields available on loans to emerging-market borrowers.

These loans are risky for two reasons. First, rising interest rates will hurt the profits and even the viability of the borrowers. The prospect of rising interest rates in the United States has already caused U.S. creditors to raise interest rates on loans to borrowers in emerging markets. And the prospect of rising U.S. rates is strengthening the dollar relative to the currencies of those other countries, making it harder for companies whose earnings are denominated in their local currency to repay their loans.

In the eurozone, too, risk has increased. Italy's ten-year sovereign debt yields investors just 1.4 percent, even though the country's debt equals more than 100 percent of its GDP. When interest rates return to normal, these investors will lose money. In the eurozone's private debt market, loans with few requirements for borrowers now constitute nearly half of all institutional loans.

Investors and lenders have clearly taken substantial risks. But whether this puts the entire financial system in jeopardy remains unclear. Nor is it clear whether the normalizing of interest rates by the Fed will trigger a systemic downturn. Still, there is no doubt that unconventional monetary policy has increased the risk of such systemic instability.

Unfortunately, the Fed seems oblivious to this possibility. In December 2015, it finally began the process of raising the overnight federal funds interest rate. The minutes of the Federal Open Market Committee meeting showed that members had little interest in taking financial stability risks into account when setting interest rates in the future. The committee said nothing suggesting that it would raise rates more rapidly to discourage the mispricing of assets. Instead, it stressed that the federal funds rate will rise only very slowly to increase aggregate demand and will remain low even after the economy has achieved full employment and the target rate of inflation.

BUILT ON SAND

Despite the close link between quantitative easing and financial instability, the Fed continues to downplay the connection. In a 2014 speech, Janet Yellen, Bernanke's successor as chair of the Federal Reserve, explicitly limited the goals of monetary policy to the two congressional mandates of maximum employment and price stability, saying that financial stability should be left to "macroprudential policies," or measures the government can take that limit the risks of instability across the whole financial system. But it is not clear what those macroprudential policies should be, in the United States or the eurozone.

The one clear example of a potentially useful macroprudential policy in the United States is the increased capital requirements that the Fed has imposed on commercial banks. Because banks now hold more capital, they are capable of absorbing greater losses. The dysfunction that afflicted the banking system in 2007 and 2008 is less likely to recur. But since the high capital requirements force banks to have more capital relative to their total portfolios, they are less likely to hold bonds, which will make interest rates more volatile when investors want to sell their bonds.

Although the Fed has subjected banks' portfolios to stress tests to measure the effect of rising interest rates and investment losses, the results might not have shown the whole picture: U.S. banks, particularly small and medium-sized ones, may not have enough capital to maintain solvency and liquidity should their risky loans and investments fail in large numbers. The same is true of the stress tests that the ECB has performed in Europe, especially because it is hard to be confident of the value of the sovereign bonds of some of the peripheral countries, such as Portugal and Spain. In both Europe and the United States, therefore, macroprudential policy has done little to mitigate the growing risk of financial instability that unconventional monetary policy has caused.

LESSONS LEARNED

In the future, central banks should respond to normal downturns with the best tool available: traditional monetary policy alone. But in the face of a more severe downturn, a combination of fiscal policy and traditional monetary policy will likely prove better than the more extreme option of relying on unconventional monetary policy, given the accompanying risks of financial instability.

Ideally, if countercyclical fiscal policy is needed to deal with a future downturn, it should combine a short-term fiscal stimulus with changes in entitlement programs to stabilize the long-term level of national debt. Otherwise, financial markets may fear sustained future deficits and rising government debt, a worry that could raise long-term rates to the point where they offset some or all of the favorable effect of a fiscal stimulus. Unfortunately, it may not be politically feasible to touch entitlement programs. But it is possible to design a fiscal policy that provides a net stimulus to the economy without increasing the size of the national debt—something that is particularly important now in the eurozone, where debt levels are already very high.

The key to such a revenue-neutral stimulus strategy is to recognize that there are two possible types of fiscal stimulus policies. The first entails cutting taxes and increasing government spending, which raise fiscal deficits and boost demand through the traditional Keynesian channels. The second includes specific investment incentives, such as the investment tax credit, that make new investments more profitable and thereby encourage firms to invest.

This second type of fiscal stimulus can raise aggregate demand without expanding the national debt, if the government also enacts a temporary increase in the corporate tax rate. An investment tax credit would make new investments more profitable, and a higher corporate tax rate would apply only to existing capital. Businesses would have more incentive to invest during the years when the investment tax credit was available.

A similar revenue-neutral strategy could stimulate consumer spending in countries that have value-added taxes, as is common in the eurozone. The government in a given country could commit to raising the value-added tax rate each year for the next several years, balancing the higher tax burden with reductions in the personal income tax. Individuals would have an incentive to spend sooner to avoid paying more in the future. In the eurozone, such revenue-neutral fiscal policies have the additional advantage that, unlike monetary policy there, they can be tailored to suit individual countries.

These revenue-neutral fiscal policies might not be enough to deal with a crash as large as the one that hit the United States and Europe in 2007. But they would serve as a useful supplement to conventional monetary policy, limiting the need for unconventional monetary policy, which causes investors and lenders to misprice assets and increases the risk of financial instability.

The Kingdom Maintains Its Winning Edge

As the first Asian country to establish formal diplomatic relations with the United States, the Kingdom of Thailand can now reflect on 183 years of friendship with an appreciation for the significant economic progress made despite challenging episodes in the Kingdom's history.

And as Thailand has become a reliable partner of the United States, it has also become an economic leader in Southeast Asia.

The road to progress was not smooth at first, but by the late 1980s, the country was making huge headway toward sustaining economic growth and reducing poverty. By the 1990s, the Thai economy was being hailed as one of the Asian economic tigers, together with Malaysia, Singapore, and Indonesia.

More would have undoubtedly been achieved were it not for the financial crisis that affected the region in 1997. In the aftermath of the crisis, Asian nations strengthened banking regulations, arguably more effectively than anywhere else in the world. Thailand emerged from the crisis stronger and built its reputation as the region's manufacturing center.

Don Pramudwinai, Minister of Foreign Affairs of Thailand

Amid lingering sociopolitical tensions, Thailand has remained the second-largest economy among the Association of Southeast Asian Nations (ASEAN) based on gross domestic product, and the thirtieth largest economy in the world.

"We partner in a broad range of cooperation, including military and security cooperation, public health, education and science and technology cooperation," Minister of Foreign Affairs Don Pramudwinai said.

"What we would like to see more of is the two countries continuing to work together in areas of mutual benefit, not just for the U.S. and Thailand but also for the region, such as in military cooperation, the fight against HIV-AIDS, child and forced labor, human trafficking and education, science, technology and innovation," he added.

The Thai government looks to the next few years with great optimism, confident that its efforts will yield improved political stability and faster economic growth in the near future to the benefit of its entire people.

Building Confidence in Government

"The most important task of this government is to restore confidence," said Minster of Commerce Apiradi Tantraporn, who admitted, however, that foreign investment had declined because of the political situation in the country.

Although exports and foreign direct investment have shrunk, the government remains resolute in stabilizing the economic and political climate in the country. "Since we took office during the second half of 2015, the national legislative office has passed 120 new reforms in order to improve the functioning of government offices and the legislature," said Tantraporn.

The government has stepped up its efforts to change the global perception of Thailand and convince multinational companies to establish their regional headquarters in the country. Last year, the Thailand Board of Investment approved investment applications valued at more than $200 billion, up more than 10 percent from 2014. Although the new investments fell below target, they represent fresh ventures in advanced technologies and innovation. Those "industries of the future" fall within the new focus of the Board of Investment's cluster promotion scheme.

"Foreign direct investment is very important to Thailand, especially for high-tech products. The government is investing significantly in infrastructure to become more

Apiradi Tantraporn Minister of Commerce of Thailand

appealing to investors. To further support investment, the government is also improving taxation and speeding up the process of obtaining work permits," said Supant Mongkolsuthree, chairman of the Federation of Thai Industries (FTI). The FTI is a driving force in connecting the private and public sector. "Together with government, we are working on improving the ease of the doing business in Thailand. We support both local and foreign investors," Mongkolsuthree added.

The AEC and Beyond

The launch of the ASEAN Economic Community (AEC) at the end of 2015 ushered in a new era in the region. More than just a free trade zone, the AEC will create a single market and production base that will boost the competitiveness of its member countries.

With more than 600 million people, ASEAN's potential market is larger than that of the European Union and the North American Free Trade Area. However, there are a few hurdles that Thailand, like its other neighbors, must overcome: particularly the improvement of English skills in its local workforce and the return to democratic rule in the country.

As a founding member of the ASEAN, Thailand is expected to play a critical role in ensuring the success of the AEC. The government appears committed to this objective and the private sector has in the past few years also become an equal driving force in this ambitious project.

"I see an opportunity for the local players in Asia to connect and collaborate with the key active players. ASEAN'S activities over the next decade will enhance overall connectivity throughout the region," stressed Thapana Sirivadhanabhakdi, chief executive officer of Thai Beverage, the largest company in its sector in the country.

"In the next era, there will be more of a regional focus and better collaboration between the players and the investors. And Thailand plays a crucial role in that," Sirivadhanabhakdi added.

Thailand still enjoys a certain reputational strength. In 2015, for the fifth straight year, Bangkok was named one of the top two Global Destination Cities by MasterCard. The Thai capital and London have shared the top two spots since the annual ranking began. More direct flights to China, Japan, and India have only increased economic and investment opportunities.

"I see Thailand as an opportunity to link to the Mekong region, but that's not to say that the domestic market doesn't have potential as well. Definitely I recommend to people to invest more in this region. The demographics speak for themselves," said Jeremy King, chief executive

Thai Beverage CEO Thapana Sirivadhanabhakdi

officer of Siam Knight Fund Management Securities.

Although Singapore and Malaysia edge out their ASEAN neighbors in the latest ranking of economic competitiveness by the World Economic Forum, Thailand continues its steady rise up the table.

"If Thailand is to promote itself as a production hub, it will bring in more investment. I also see investment in services come in. We need to get ready for this, especially as a law firm, in order to manage the impact," said Florean Laurean, managing director of McWalden & Bailey, which specializes in corporate & business investment, litigation, real estate and immigration, tax & accounting, intellectual property.

"If you look at the AEC, it is creating a singular market and increasing opportunities for business. This is a huge economic integration and there will be challenges. The important thing is that this economic bloc is going to increase and sustain competitiveness (in the region)," Laurean added.

So with the right policies and continued optimism, the country may find itself very close to the top. ■

Creativity Meets Purpose

Because of its geographic location, Thailand has upheld its reputation as an economic hub in Asia for many decades. And recently, the country has made its mark around the world for its thriving creative industries, with Thai designers – from architects to fashion designers – becoming well-known names for their inventiveness.

For Design 103 Chairman Chuchawal Pringpuangkeo, fame and fortune was never his priority.

"We are not working for money. We are not working for fame. We want to build something that will fit the needs of our clients," he said.

After spending time in the United States, Pringpuangkeo realized that his skills would be utilized better back in Thailand: "I felt that people in Thailand needed my help more than in the States."

After returning to Thailand in 1968, Pringpuangkeo opened his design firm hoping it would build the country's creative sector. Design 103 was envisioned to become more than just a consultancy but more as creative collaborators.

"We want to establish ourselves as our clients' partner; not the architect, not the designer. But, we want to be your partner. When they succeed, we succeed," said Pringpuangkeo.

As a one-stop creative service, Design 103 looks toward the future with much optimism. As ASEAN launched its Economic Community at the start of this year, Design 103 is excited over opportunities to work with clients around Southeast Asia as the firm strives to become the No. 1 design firm in Thailand and the ASEAN region. ■

www.d103group.com/en

The Fed and the Great Recession

How Better Monetary Policy Can Avert the Next Crisis

Scott Sumner

Today, there is essentially one accepted narrative of the economic crisis that began in late 2007. Overly optimistic homebuyers and reckless lenders in the United States created a housing price bubble. Regulators were asleep at the switch. When the bubble inevitably popped, the government had to bail out the banks, and the United States suffered its deepest and longest slump since the 1930s. For anyone who has seen or read *The Big Short*, this story will be familiar.

Yet it is also wrong. The real cause of the Great Recession lay not in the housing market but in the misguided monetary policy of the Federal Reserve. As the economy began to collapse in 2008, the Fed focused on solving the housing crisis. Yet the housing crisis was a distraction. On its own, it might have caused a weak recession, but little more. As the Fed bailed out the banks at risk from innumerable bad mortgages, it ignored the root cause of serious recessions: a fall in nominal GDP, or NGDP, which counts the total value of all goods and services produced in the United States, not adjusted for inflation. Such a fall began unimpeded in mid-2008, and once that happened, much of the damage had been done.

The Fed can control NGDP through its monetary policy, and as NGDP fell in 2008, the Fed should have lowered interest rates rapidly. If that proved insufficient, it should have increased the money supply through quantitative easing. Instead, the Fed, terrified of

SCOTT SUMNER is Ralph G. Hawtrey Chair of Monetary Policy at the Mercatus Center at George Mason University and Professor of Economics at Bentley University. Follow him on Twitter @MoneyIllusion.

inflation, kept interest rates too high for too long—causing NGDP to fall even further.

To prevent such errors in the future, the Fed should switch from targeting inflation to targeting the level of NGDP. When a recession hits, NGDP tends to fall before inflation, which means that a central bank focused on targeting inflation will be too slow to respond. Throughout mid-2008, U.S. inflation remained positive, as NGDP began falling. Had the Fed targeted NGDP, it might have acted much sooner to boost growth—staving off the Great Recession and the suffering that came with it.

SUBPRIME LOGIC

Most pundits blame the housing market for the Great Recession. But their argument doesn't hold up to scrutiny. For one thing, the United States was not the only country to experience a housing boom; Australia, Canada, New Zealand, and the United Kingdom also did. In all four countries, house prices rose sharply in the first decade of this century, just as they did in the United States, but in all four, they have yet to fall. In fact, for a decade now, real house prices in these countries have remained close to 2006 levels, or even moved higher.

For another thing, theories connecting the Great Recession to the housing bust have a timing problem. Between January 2006 and April 2008, housing construction in the United States plunged by more than 50 percent. Yet unemployment moved only from 4.7 percent to 5.0 percent. The big problem occurred later, as unemployment doubled, to ten percent, by October 2009. During the first 27 months of the housing slump, capital and labor were reallocated to other growing industries, such as commercial construction, exports, and services, mitigating the worst effects of the housing collapse.

This makes sense: classical economic theory predicts that when one sector declines, capital and labor will shift to other sectors. Contrary to popular belief, real shocks—such as the bursting of a housing bubble, a devastating natural disaster, a stock market crash, or a terrorist attack—do not cause deep recessions. The stock market crash of 1987, comparable to the 1929 crash, had no effect whatsoever on U.S. unemployment. The earthquake and tsunami that struck Japan in 2011, devastating part of the country and shutting down the entire nuclear industry for almost two years, caused a temporary dip in industrial output but were barely noticeable in unemployment figures.

Instead, major recessions are caused by monetary policy failures. In order for capital and labor to shift easily from a declining sector to a growing sector, the total spending in an economy must continue to rise at a reasonable pace. The best measure of total spending is NGDP, since it measures changes in the total amount of money spent on all goods and services.

Central banks can control this flow of money through monetary policy. They can expand the supply of money by purchasing small quantities of government bonds in order to lower short-term interest rates, or, if rates fall to zero, by quantitative easing: the purchase of large quantities of government bonds. And they can contract the supply of money by selling bonds, which will raise short-term interest rates.

What triggers recessions are abrupt drops in NGDP. If NGDP grows too quickly, monetary policy is too loose. With too much money chasing each transaction, prices rise, and the result is inflation. If NGDP falls abruptly, on the other hand, monetary policy is too tight—there is no longer enough money to pay everyone who wants to work or to fund all the transactions that would otherwise take place, and the economy starts to contract.

Drops in NGDP are particularly damaging for two reasons. First, wages are what economists describe as "sticky downward": when spending throughout the economy rises, employees are able to negotiate pay increases, but when spending falls, employers would rather fire a few people than negotiate pay cuts with all their employees. Drops in NGDP kick off something akin to a game of musical chairs. Just as removing several chairs will leave some players sitting on the floor when the music stops, removing several percentage points of expected NGDP growth will leave too little revenue to employ the existing work force at the wages they have negotiated. The result: rising unemployment.

Major recessions are caused by monetary policy failures.

Consider what happened in the U.S. labor market in the 1970s. From 1971 to 1981, NGDP grew at an average of 11 percent per year, and workers negotiated large pay increases. But in 1982, after Paul Volcker, then chair of the Federal Reserve, had tightened the Fed's monetary policy to fight inflation, NGDP growth fell to less than five percent, and unemployment soared. Companies had committed to pay workers based on revenue forecasts that proved inaccurate.

A similar problem occurs in the credit market. Even sophisticated Wall Street firms issue long-term contracts in nominal terms, such as 30-year bonds with fixed nominal interest rates. Such contractual obligations are more difficult to meet when monetary policy allows NGDP growth to slow sharply.

This leads to the second major problem associated with NGDP shocks: financial market instability. When NGDP growth falls sharply relative to expectations, economies tend to suffer financial crises. A decrease in nominal income means there is less money to pay back loans, so defaults become more common and banks come under increasing strain. This is a familiar phenomenon. NGDP in the United States fell by half during the early 1930s, and there were debt crises all over the world. NGDP growth fell to roughly zero in Japan after 1993, triggering severe banking problems, and it plunged in the late 1990s in Argentina, leading to a serious financial crisis in 2001. And something similar happened in the United States and the eurozone during the Great Recession.

THE ROAD TO RECESSION

When the housing crisis hit at the end of 2007, defaults on reckless subprime mortgages put the U.S. banking sector under stress. The Fed stepped in to rescue the financial system, bailing out the investment bank Bear Stearns and lending money to banks. Such actions might have been sufficient if the problem had been contained to turmoil in the financial sector.

But in mid-2008, two years after the housing market began to collapse, a much more serious problem emerged. The Fed did not cut interests rates quickly enough to offset the drag caused by the housing crisis, perhaps out of fear of high inflation resulting from rising oil prices. As a result, NGDP fell sharply. Until 2008, NGDP growth had averaged about five percent per year. Starting in June 2008, however, NGDP fell by roughly three percent in 12 months, to about eight percentage points below the pre-recession trend line.

As NGDP fell, unemployment rose and spread from the housing sector to almost every part of the economy. And the financial crisis, initially triggered by the housing slump, became much worse. As a result, what had initially been just a financial crisis turned into a full-blown macroeconomic crisis.

Yet policymakers initially ignored the fall in NGDP growth. Throughout 2008, they continued to assume that the problem was banking distress, rather than a contraction in nominal spending. Worse, they thought that the risk of inflation was just as great as the risk of a recession, even after Lehman Brothers failed in September. It is true that inflation had been quite high for the previous 12 months, thanks to high oil prices. But the markets thought inflation would fall sharply over the next few years. The Fed chose to ignore those market forecasts. Instead of expanding the supply of money to boost NGDP, it refused to touch interest rates between April and October 2008, keeping them at two percent. Even on September 16, 2008, the day after Lehman Brothers filed for bankruptcy, the Federal Reserve Board voted not to cut interest rates, a decision that Ben Bernanke, at the time the Fed's chair, now concedes was an error.

Normally, the Fed's aggressive moves to inject money into the banking system would have immediately pushed interest rates to zero. But because the Fed did not want to boost nominal spending, in early October, it introduced a new policy: it started to pay interest on reserves that banks hold with the Fed. The move prevented interest rates from falling to zero and encouraged banks to keep their money at the Fed rather than move it out into the wider economy: a contractionary move at a time when monetary stimulus was essential.

A cynic might say the Fed was trying to rescue Wall Street without rescuing Main Street: it was saving the banks but not allowing the interest rates that affect the wider economy to fall enough to boost NGDP. A more likely explanation, however, is that the Fed made a misdiagnosis. There were two distinct problems: banking distress caused by defaults on subprime mortgages and a much more serious macroeconomic crisis caused by the shortfall in spending. The Fed recognized the first but missed the second.

Even worse, the problem that the Fed ignored exacerbated the banking crisis—as NGDP fell, people and businesses across the economy had less money than they had anticipated to pay back debts. The financial crisis worsened, the housing market collapsed further, and unemployment soared. Only in December 2008 did the Fed cut rates close to zero. But by then, the damage had been done: a mild downturn had turned into the Great Recession.

OUT OF AMMO?

In late 2008, the Fed finally sought to reverse the shortfall in nominal spending through programs such as quantitative easing. This was

Fed up: waiting in line to enter a job fair in New York, December 2009

SHANNON STAPLETON / REUTERS

better late than never. Still, throughout the crisis and the ongoing weak recovery, the Fed has been too tentative and its monetary policy too contractionary. This view flies in the face of accepted wisdom. Most pundits still think the Fed's post-2008 policy was expansionary because it ultimately brought short-term interest rates close to zero. But they misunderstand how monetary policy really works.

A low nominal interest rate in itself does not constitute an expansionary monetary policy; what matters is its value relative to the "natural interest rate," the rate at which inflation and NGDP remain on target. If the nominal rate is above the natural rate, monetary policy is contractionary. And if the natural rate falls, as it did in 2008 when spending slowed down and inflation decreased, then a fixed nominal interest rate will effectively rise relative to the natural rate, causing monetary policy to tighten. The supply of money will no longer be growing quickly enough to pay everyone's wages. If nominal spending has fallen to such an extent that the natural rate is below zero, then an interest rate just above zero, although low in absolute terms, may in fact still represent a tight monetary policy.

So even though interest rates fell close to zero from December 2008 onward and many assumed that the Fed's monetary policy was expansionary, in reality it was not. Between July and December 2008, a number of things happened that point to a contractionary monetary policy. Commodity prices fell by roughly half. Stock prices crashed. The dollar strengthened against other currencies. Real estate prices fell in states all over the country, not just in places where subprime mortgages had been common. And the financial markets expected inflation to turn negative.

The so-called zero lower bound, when interest rates are at or near zero, provides no excuse for the Fed's refusal to employ an expansionary monetary policy when such a policy was needed. Contrary to the claims of many pundits, it is not true that central banks are out of ammunition when interest rates approach or hit zero. They can always increase the supply of money if they choose, by creating money through "unconventional" measures such as quantitative easing.

From the end of 2008 until 2014, the Fed launched several rounds of quantitative easing to boost NGDP. Although it should have made these moves sooner and more aggressively, they did help end the recession in the United States. Some argue that quantitative easing and extremely low interest rates have increased the risks of another financial crisis by creating asset price bubbles as investors search for higher returns from riskier assets, but these fears are exaggerated: the low interest rates of recent years do not reflect a loose monetary policy; rather, they indicate a new normal of slow growth in the developed world. Asset prices should in fact be higher when interest rates are low. Market indicators suggest that relatively low rates are here to stay, and so current asset prices are not necessarily a bubble waiting to burst.

Had the Fed acted decisively back in 2008, the crisis would have been far less severe.

The European Central Bank, in contrast to the Fed, avoided quantitative easing until much later and did even less to boost spending. As a result, the eurozone slid into a double-dip recession in 2011, as the U.S. economy continued to recover. This was thanks to monetary policy, not fiscal policy: after 2011, there was actually more fiscal austerity in the United States than in the eurozone thanks to sequestration, the automatic budget cuts agreed to by Congress that year.

A good example of the power of monetary policy came in early 2013. Taxes increased sharply at the beginning of 2013, and a few months later, U.S. government spending tightened because of sequestration. Several months earlier, the Fed had launched a round of quantitative easing, purchasing trillions of dollars of assets in the following two years to expand the money supply. Three hundred and fifty Keynesian economists signed an open letter warning that the budget cuts could push the U.S. economy back into recession in 2013. The economist Paul Krugman argued that an expansionary monetary policy would not be able to offset the fiscal austerity. They were wrong: the U.S. economy grew faster in 2013 than in 2012. The budget deficit fell by almost half, or $500 billion, in one year with no discernible effect on growth. This showed not only that monetary policy remained effective when interest rates were at zero but also that it was much more powerful than fiscal policy. And it suggested that had the Fed acted so decisively back in 2008, the crisis would have been far less severe.

BEYOND INFLATION

If monetary policy, not the housing market or the banking system, was the root of the Great Recession, then well-intentioned financial regulation, such as the Dodd-Frank Act, won't solve the problem. Instead, the Fed should reform the way it conducts monetary policy and stop targeting inflation.

As things work now, the Fed aims to hit two percent inflation each year, and if it misses that target, it simply tries again the following year. It doesn't try to get back on track and make up for lost ground. If prices fall one year, as they did in 2009, for instance, then instead of trying to make up the difference by raising inflation above two percent the following year, the Fed just tries once again to hit two percent. But this means that if inflation is less than two percent two years in a row, as it was from 2009 to 2010, monetary policy will have become tighter: goods will cost less than they would have had the Fed hit its target each year, and the risk of a recession brought on by such a fall will be high.

One way to avoid this would be for the Fed to switch from setting a target for inflation to setting a target path for what goods should cost over the next few years. This practice is known as "price-level targeting." Imagine a piece of graph paper showing the price level rising along a two percent trend line from its current position. Under price-level targeting, a central bank promises to move the price level back to that trend line anytime it falls below or rises above it. Next year, the target cost of living is two percent higher than today; the following year, it is four percent higher; and in three years' time, it is roughly six percent higher. In contrast to the current system, in this system, if prices fall one year, the next year the Fed would have to aim for a period of above two percent inflation to catch up to the trend line. Krugman has described such a strategy as "promis[ing] to be irresponsible."

To see the advantages of price-level targeting, consider the situation in late 2008, when it was clear that the economy was entering a deep recession in which prices would fall. If investors knew that the Fed would eventually print as much money as necessary to bring prices back up to the pre-recession trend line, asset prices such as stocks, commodities, and real estate would have fallen by much less. As a result, fewer people would have defaulted on their loans, and banks such as Lehman Brothers would have been less likely to fail. That doesn't mean that no banks would have failed, but it does mean that the crisis would have been milder.

Bernanke himself recommended that the Bank of Japan consider price-level targeting in 2003. Yet he discovered that there was a great deal of institutional resistance at the Fed to the practice, and his suggestions were dismissed at a meeting of the Federal Open Market Committee that he attended that same year. By all accounts, Bernanke governed by consensus during his term as Fed chair, and so the Fed's actual policy might not have reflected his ideal policy.

The main benefit of price-level targeting is that it assures markets that the price level will remain predictable in the long run. The markets know that the Fed will expand the supply of money if it undershoots its target one year and contract it if it overshoots it the next. The more predictable the monetary policy, the more stable the economy.

CHANGING TARGET

Yet an even better policy would be to target the level of NGDP directly, because changes in NGDP tend to track changes in unemployment more closely than do changes in inflation. Under this approach, the Fed would commit to increase total nominal spending by four or five percent every year. Any decline in NGDP growth would be quickly reversed. Everyone would know that whatever happened, enough money would flow through the economy to generate the sort of growth in national income that was expected when wage and debt contracts were signed. Individual sectors would still have their ups and downs, and financial institutions would still collapse from time to time. But total nominal spending would rise at a slow yet predictable rate.

This approach has another appealing feature: it would send a clear and credible signal to the markets that the Fed would do what it took to get NGDP back on its long-term trend line. Because the Fed would target the level of NGDP, if spending were too low one year, interest rates would fall to boost spending, and investors would know that NGDP growth the following year would be higher to make up the lost ground. Their bullish expectations would themselves lead to increased current spending. A collapse in confidence like the one that accompanied the start of the Great Recession would be much less likely if central banks focused on keeping NGDP growing steadily. Australia has not had a recession since 1991 because it has kept NGDP growing along a relatively stable path.

Economists of all stripes (and not just "market monetarists," who initially supported the policy) are increasingly starting to back NGDP-level targeting. In the aftermath of the Great Recession, the practice has racked up endorsements from some of the most respected macroeconomists in the United States, including Michael Woodford, a professor at Columbia; Christina Romer, a former chair of the Council of Economic Advisers; and Jeffrey Frankel, a former member of the same council. Many other top economists, such as Krugman and former U.S. Treasury Secretary Larry Summers, have suggested that it's worth examining closely.

Central banks are conservative institutions and will no doubt be slow to embrace this new way of thinking. Yet perhaps their conservatism will not prevent them from learning at least some of the lessons of this painful past decade.

The Fusion of Civilizations

The Case for Global Optimism

Kishore Mahbubani and Lawrence H. Summers

The mood of much of the world is grim these days. Turmoil in the Middle East, causing hundreds of thousands of deaths and millions of refugees; random terrorist attacks across the globe; geopolitical tensions in eastern Europe and Asia; the end of the commodity supercycle; slowing growth in China; and economic stagnation in many countries—all have combined to feed a deep pessimism about the present and, worse, the future.

Historians looking back on this age from the vantage point of later generations, however, are likely to be puzzled by the widespread contemporary feelings of gloom and doom. By most objective measures of human well-being, the past three decades have been the best in history. More and more people in more and more places are enjoying better lives than ever before. Nor is this an accident—because despite Samuel Huntington's foreboding, what has occurred over recent generations is not a clash of civilizations but a fusion of civilizations.

To put it simply, the great world civilizations, which used to have detached and separate identities, now have increasingly overlapping areas of commonality. Most people around the world now have the same aspirations as the Western middle classes: they want their children to get good educations, land good jobs, and live happy, productive lives as members of stable, peaceful communities. Instead of feeling depressed, the West should be celebrating its phenomenal success at injecting the key elements of its worldview into other great civilizations.

KISHORE MAHBUBANI is Dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore and the author of *The Great Convergence: Asia, the West, and the Logic of One World*.

LAWRENCE H. SUMMERS is President Emeritus and Charles W. Eliot University Professor of Economics at Harvard University. He served as U.S. Secretary of the Treasury from 1999 to 2001 and Director of the National Economic Council from 2009 to 2010.

The march of reason, triggered in the West by the Enlightenment, is spreading globally, leading to the emergence of pragmatic problem-solving cultures in every region and making it possible to envisage the emergence of a stable and sustainable rules-based order. There is every reason to believe, moreover, that the next few decades can be even better for humanity than the last few—so long as the West does not lose confidence in its core values and retreat from global engagement. The greatest danger of the current pessimism, therefore, is that it might become a self-fulfilling prophecy, leading to fear and withdrawal rather than attempts to reinvigorate the existing global system.

The origins of the contemporary era lie in the West's transformation during the Renaissance, the Enlightenment, and the Industrial Revolution. No other civilization can take credit for giving birth to modernity. This was not done with some benign intent to uplift humanity in general; there were many problems along the way, and the explosion of Western power across the globe had some terrible consequences for other cultures and regions. Yet the ultimate result was the diffusion of a modern outlook that relies on science and rationality to solve problems, much to the ultimate benefit of the planet's population.

As recently as half a century ago, for example, there was a global clash of economic ideologies. Nikita Khrushchev, the former leader of the Soviet Union, could claim that the state was better at delivering basic goods to citizens than free markets were, but today such a view would be laughed at. The market economy has made Chinese and Indian workers today far more productive than they were under Mao Zedong or Jawaharlal Nehru, India's first prime minister. Societies now accept the simple fact that workers need material incentives to be productive, which has led to increased dignity and self-worth. The vast majority of humanity is literate, is at least somewhat mobile, and has access to the world's store of existing knowledge. Around half of the adults in the world own a smartphone, and there are now more connected mobile devices in total than there are people on the planet.

The spread of science and technology, meanwhile, has also improved human dignity and well-being. Most people used to experience lives that were nasty, brutish, and short. Today, life expectancy has increased by leaps and bounds virtually everywhere. Infant and maternal mortality have dropped sharply, thanks in part to the spread of clear hygiene standards and the construction of modern hospitals. According to the Bill & Melinda Gates Foundation, as recently as 1988, polio was rampant in 125 countries; today that number is down to two. Aside from among the Taliban and a few pockets of upscale communities in the United States, the virtues of vaccines are accepted by all, part of a general consensus on the virtues of Western science and technology.

And reason is replacing superstition more generally. People around the world now routinely do basic cost-benefit analyses when looking for solutions to problems, leading to a gradual improvement in outcomes everywhere, from agriculture and construction to social and political life. This helps explain the dramatic long-term decline in the rates of most kinds of conflict and violence that the Harvard scholar Steven Pinker has documented.

After slavery and imprisonment, the most degrading condition a human being can experience is poverty. In 2000, UN Secretary-General Kofi Annan announced as one of the ambitious Millennium Development Goals halving extreme global poverty by 2015. That goal was far exceeded, and the U.S. National Intelligence Council has predicted that extreme poverty will be reduced even further by 2030—which would constitute one of the most remarkable developments in human history. The global middle class, meanwhile, is projected to rise from 1.8 billion in 2009 to 3.2 billion in 2020 and 4.9 billion in 2030. The world's infant mortality rate decreased from an estimated 63 deaths per 1,000 live births in 1990 to 32 in 2015. This translates into more than four million fewer infant deaths each year.

Instead of optimism based on this recent progress, however, these days in the West, one more often encounters pessimism related to three current challenges: turbulence in the Islamic world, the rise of China, and intra-Western economic and political sclerosis. But the pessimism is unwarranted, because none of these three challenges is insurmountable.

MODERNIZING MUSLIMS

The Islamic world, from Morocco to Indonesia, comprises 1.6 billion citizens—more than one in five people on the planet. The vast majority of them share the common global aspirations to modernize their societies, achieve middle-class living standards, and lead peaceful, productive, and fulfilling lives.

It gets better: vaccinating against polio near Jalalabad, Afghanistan, January 2014

PARWIZ / REUTERS

Contrary to what some assert, Islam is fully compatible with modernization. When Malaysia built the Petronas Towers and Dubai built Burj Khalifa, they were not just erecting physical structures but also sending a metaphysical message: we want to be part of the modern world in all dimensions. Many Islamic societies have educated their women. In Malaysian universities, the women outnumber the men 65 percent to 35 percent. Even some Islamic countries that were initially reluctant to embrace modernization have begun to do so. For example, Qatar, Saudi Arabia, and the United Arab Emirates now feature satellite campuses of major Western universities. One reason for the shift is that the experience of other regions, such as Asia, has shown that modernization does not simply equal westernization—that it is possible to pursue, say, economic and social development while still retaining distinctive cultural characteristics.

It is true that a certain number of young Muslims will continue to choose rebellion against the modern world rather than integration into it, joining radical Islamist groups and trying to wreak havoc where they can. About 30,000 Muslim fighters from all over the world, including the West, have joined the Islamic State (also known as ISIS). But however much they constitute a major global security problem, they are dwarfed by, say, the 200 million nonradical Muslims who live peacefully in Indonesia alone. Indonesia has elected two consecutive leaders committed to integrating the country into the modern world, and its largest Muslim organization, the 50-million-plus-member Nahdlatul Ulama, has publicly challenged ISIS' actions and ideology.

The real challenge, therefore, is not the Islamic world per se but figuring out how to bolster the pro-modernization trends in that world while containing the radical trend. In retrospect, it was a mistake for the West to have remained silent when Saudi funding dramatically increased the number of radical madrasahs around the world. A comparable investment today in building a good modern school next to each radical one would create a contest for legitimacy that would likely spread Enlightenment values far and wide. Such a program could be undertaken by the UN agencies UNESCO and UNICEF at relatively modest cost, and it is only one of many possible lines of advance in attacking the problem.

CHALLENGING CHINESE

The second great challenge many worry about is the rise of China. China's success, however, can also be seen as the ultimate triumph of the West. The emperor Qianlong famously wrote to Great Britain's King George III in 1793 saying, "Our Celestial Empire possesses all things in prolific abundance and lacks no product within its own borders. There [is] therefore no need to import the manufactures of outside barbarians in exchange for our own produce." Two centuries later, the Chinese understand that absorbing Western modernity into their society has been crucial to their country's reemergence. It has led to rapid economic growth, new and gleaming infrastructure, triumphs in space exploration, the spectacular 2008 Olympic Games in Beijing, and much more.

Even as Chinese society has accepted modernity with great enthusiasm, however, it has not abandoned its Chinese cultural roots. The Chinese look at their modern Chinese civilization and emphasize its Chineseness, seeing no contradiction. Indeed, China is now experiencing its own cultural renaissance, fueled by its new affluence.

The duality of the Chinese story is reflected in the West's schizophrenic response to it. The Nixon administration eagerly sought better relations with China under Mao, and when Deng Xiaoping doubled down by opening up the country, the West applauded the change. The United States generously accepted Chinese products into its markets, allowed massive trade surpluses, welcomed China into the World Trade Organization in 2001, and kept global sea-lanes open so that China could trade freely. All of this enabled China to emerge as the world's number one trading power by 2013. The United States also generously allowed more than a million Chinese students to study in its universities.

Yet the rise of China has also led to deep fears. China continues to be run by a communist party that has no desire to embrace liberal democracy. China has displayed a belligerent side in some of its dealings with Japan and some members of the Association of Southeast Asian Nations over territorial disputes in the East China and South China Seas. The possibility of an aggressive, militaristic China cannot be ruled out.

But we have come a vast distance since the days when Mao openly talked about the possibility of winning a nuclear war, and Chinese history suggests that Beijing will ultimately prefer to join, rather than replace or reject, the current rules-based order that the West has created. As the world's number one trading power, China has the most to lose from a breakdown of the global economic system. Historically, moreover, what the Chinese have feared most is *luan* (chaos). This might lead to heavy-handed efforts to preserve order domestically, but it should lead Beijing to support a rules-based order at the global level as well. Undoubtedly, as China grows more powerful, it will become more assertive. This has happened. But since China needs a few more decades of peace to complete its modernization, it has strong reasons to restrain itself militarily and avoid a conflict.

Contrary to what some assert, Islam is fully compatible with modernization.

Chinese society will never become a replica of Western society. China's own culture is too rich to be absorbed into any other cultural universe. Yet a modernizing China will feature overlapping aspirations in many areas, as, for example, with the rapid spread of Western classical music. In 2008, 36 million Chinese children were studying the piano (six times the number of U.S. children doing so), and another 50 million were studying the violin. Some Chinese cities can fill the halls of 15 opera houses in one evening.

A modern China with thriving Western classical orchestras and Western-style universities provides a powerful demonstration of the fusion of civilizations. Western statesmen should allow this dynamic to gain momentum while remaining patient on other areas of change, such as in the political realm. China's development will not necessarily be linear, but in the long run, it should continue in a positive direction.

PESSIMISTIC POPULISTS

The third challenge today is a widespread loss of confidence in the West about its own systems and future potential. Sluggish growth across the developed world, stagnant incomes for much of the population, rising economic inequality, political gridlock, and the emergence of populist insurgencies on both sides of the political spectrum have fueled a widespread sense that Western models of governance and economic management are floundering.

Many of these problems are real and important. But they are not beyond the capacity of determined leadership to solve, nor do they represent fundamental weaknesses of the Western model. So the pessimism strikes us as dramatically overdone, like previous bouts of declinism and worry that the West's best days were past. The greatest danger, in fact, is that the widespread pessimism will become a self-fulfilling prophecy. Gloomy Western policymakers and publics are more likely to see threats than opportunities and to turn away from the world rather than continue to lead it successfully.

This is notable in the rising opposition, for example, to the Trans-Pacific Partnership, a major trade deal that would help extend and deepen the liberal order across a broad swath of the globe. It is evident in the increasing suspicion of immigrants and refugees and in the growing support for closing borders. And it can be seen in the fraying and potential unraveling of international institutions such as the European Union, formerly a model of progressive international integration.

It would be a terrible shame if the West walked away from the very international order that it created after World War II and that has facilitated so much security, prosperity, and development over the decades. Instead, it should try to reinvigorate that order, with three moves in particular: working with China and India, bolstering international rules, and accentuating the positive global trends that get lost in all the hysteria about the negative ones.

Why China and India? Because they have the largest populations and economies in the developing world, are led by strong, reform-minded leaders, and are approaching the future with dynamism, optimism, and hope. Both understand that they need to take on greater responsibilities in confronting global problems, and as last fall's Paris climate agreement demonstrates, they are already starting to do so.

Although China's rise has been one of the universally acknowledged wonders of the age, India's recent rise has been impressive as well, as India, too, has embraced modernization, globalization, and Enlightenment rationalism. Along the way, India has maintained the world's largest democracy, successfully accommodated an amazingly diverse cultural and demographic mosaic, and kept its head and its values even under repeated terrorist attacks.

Although both are Asian powers, they differ so much that developing the capacity to work closely with both, and learning from each, would be a major step forward in mastering the management of a truly global order. The rapid spread of Western-style universities and orchestras in China will provide new bridges between China and the West. The exceptionally successful ethnic Indian community in the United States will provide bridges with India. And all this cooperation will accentuate the process of civilizational fusion.

The greatest danger is that widespread pessimism will become a self-fulfilling prophecy.

In contrast to China and India, Russia has held back from thoroughly embracing modernity, even though the Soviet Union started modernizing before China and India. Russia hesitated to join the World Trade Organization and has not yet accepted that ungrudging participation in the current rules-based order can facilitate its own progress. The more Beijing and New Delhi prosper, however, the more persuasive will be the case for Moscow to follow their lead.

As it works closely with the major developing powers, the West should also step up its efforts to construct a robust rules-based world in general. In 2003, former U.S. President Bill Clinton said that Americans should try "to create a world with rules and partnerships and habits of behavior that we would like to live in when we're no longer the military, political, economic superpower in the world." If Clinton's fellow citizens could accept such advice, the citizens of most other countries would be willing to do the same. And this might be easier to achieve than many believe.

Much of today's global multilateral architecture was a valuable gift from the West to the world. Yet the major Western powers have also made sure that these institutions have never grown strong enough or independent enough to make real trouble for their creators. UN secretary-generals have been creatures of the permanent members of the Security Council, the leaders of the World Bank and the International Monetary Fund have been drawn exclusively from the United States and Europe, and dominance in these financial institutions has occasionally been exploited to achieve extra-financial goals. These policies should be reconsidered, for the legitimacy of the system depends on the perception that its rules are developed by and applied fairly and equally to all, rather than that they cater to the narrow interests of a few. Picking strong leaders for the major international institutions and keeping those institutions' operations from being undermined or politicized would be a major step forward.

Western policymakers, finally, should work to highlight the good things that are happening around the world rather than harp on the bad things. Hundreds of millions of people have emerged from poverty in recent decades even as military conflicts have decreased. The convergence of global aspirations means that a vast majority of countries want to see evolution trump revolution in the reshaping of the global architecture. The appearance of pressing transnational problems should drive a convergence of interests toward cooperation in finding common solutions. And the presence of large, well-educated middle classes in countries around the globe will help keep governments on the right track.

There is every reason to be confident that the condition of the world will continue to improve as pragmatism and the use of reason become universal. Western universities have been a crucial driver of this trend. It is not just that their curricula have been copied around the world; the entire ecosystem of a modern research university is being replicated, and it is the graduates of these Western-style universities who have in turn introduced modern methods into education, public health, economic management, and public policy more generally. Global management consulting firms have also contributed to progress, spreading best practices and good ideas from the West to "the rest," and increasingly from the rest back to the West. As a result, even formerly desperate and dysfunctional countries, such as Bangladesh and Ethiopia, are now confidently entering the modern universe.

In short, despite the daily headlines that scream doom and gloom, the world is actually coming together, not falling apart. So far, the fusion of civilizations has been driven primarily by the injection of Western DNA into other civilizations. Over time, the flow of culture and ideas is likely to go in both directions. This has already happened in cuisine, where global influences have thoroughly penetrated Western kitchens, and something similar should happen across cultural sectors.

There will be challenges. There could even be major setbacks. The fusion of civilizations and the social and economic changes associated with it can seem threatening to some, creating opportunities for demagogues to exploit popular fears, even in the heart of the advanced industrial world. But increasingly open and enlightened societies are likely to avoid this danger. In the twenty-first century, the world will be governed more by the authority of ideas than by the idea of authority. In short, the progressive direction of human history, which has lifted the human condition to heights never seen before, is set to continue.

The Age of Transparency

International Relations Without Secrets

Sean P. Larkin

Transparency has long been a rare commodity in international affairs. But today, the forces of technology are ushering in a new age of openness that would have been unthinkable just a few decades ago. Governments, journalists, and nongovernmental organizations (NGOs) can now harness a flood of open-source information, drawn from commercial surveillance satellites, drones, smartphones, and computers, to reveal hidden activities in contested areas—from Ukraine to Syria to the South China Sea.

Over the next decade, the market-driven explosion of surveillance sensors and data analytics will bring an unprecedented level of transparency to global affairs. Commercial satellites will capture daily images of the entire globe, offering inexpensive and automated reports on everything from crop yields to military activity. Journalists, NGOs, and bloggers will increasingly use crowdsourced data to uncover wartime atrocities and expose government hypocrisy. Private security companies will discover the sources of cyberattacks and data theft. Biometric systems will expose the identities of clandestine operatives, and government agencies will struggle to contain leakers and whistleblowers.

Although some secrets will likely remain hidden, ubiquitous surveillance will subject the vast majority of states' actions to observation. And although governments will also benefit from improved access to information, increased transparency will allow people at home and abroad to better observe and critique what governments do and to hold leaders accountable for their decisions. As a result,

SEAN P. LARKIN is a Military Fellow at the Council on Foreign Relations. He is a Colonel in the U.S. Air Force and previously served as Director of Staff for the Deputy Chief of Staff for Intelligence, Surveillance, and Reconnaissance at U.S. Air Force Headquarters. The views expressed here are his own.

governments will find it harder to adopt strategies that require secrecy or violate international norms.

OPEN SECRETS

World leaders frequently pay lip service to the ideal of transparency, but diplomatic efforts toward greater openness have yielded limited results. Transparency agreements typically take years to negotiate, lack effective enforcement mechanisms, and focus on narrow issues, such as arms control, where the parties see an advantage, or at least little risk, in trading secrecy for stability. It took the United Nations three years, for example, to negotiate the Register of Conventional Arms, which tracks annual weapons transfers among participating countries. Since the agreement relies exclusively on states' voluntary disclosures, the transparency it provides is beneficial but incomplete.

Global transparency has been a goal of U.S. foreign policy since at least 1918, when U.S. President Woodrow Wilson called for an end to secret diplomatic agreements in his Fourteen Points. Yet Wilson ultimately conceded to British and French demands that the Allied powers honor existing secret pacts, such as the infamous Sykes-Picot Agreement, and consented to conduct the Paris Peace Conference negotiations behind closed doors. Wilson's ideal of international transparency—"open covenants of peace, openly arrived at"—appeared in the 1919 League of Nations Covenant but remained unfulfilled.

During the Cold War, U.S. President Harry Truman advocated "the free and open interchange of information across national borders" as a prerequisite for U.S. disarmament talks with the Soviet Union. The administration of U.S. President Dwight Eisenhower likewise sought to reduce mutual fears of a surprise nuclear attack through the exchange of military information. Yet the Soviet Union rejected proposals for information sharing, as well as Washington's insistence on mutual aerial reconnaissance, an idea known as the "Open Skies" plan.

Mutual suspicions limited information sharing throughout the Cold War. Early U.S.-Soviet arms control agreements, such as the 1972 SALT I accords, did not require information sharing or nuclear inspections; the parties were expected to monitor treaty compliance with their own intelligence capabilities. In the 1980s, Mikhail Gorbachev's glasnost enabled the negotiation of more intrusive transparency measures to reduce tensions with the West. The 1987 Intermediate-Range Nuclear Forces Treaty, for example, required detailed data exchanges and weapons facility inspections on U.S. and Soviet territory, establishing precedents for subsequent nuclear arms control treaties. Still, realpolitik considerations continued to limit U.S.-Soviet cooperation; transparency was a means to security, not an end in itself.

A final push for transparency in the Cold War era came in 1989, with U.S. President George H. W. Bush's attempt to resurrect Eisenhower's Open Skies initiative with a formal agreement to allow unarmed aerial surveillance flights over the territory of participating countries. Yet even in the age of glasnost, it took more than two years to resolve divergent positions on the scope and technical details of the treaty, to the point where the negotiations outlived both the Cold War and the Soviet Union. Twenty-five NATO and former Warsaw Pact countries signed the treaty in 1992; it took another ten years before it entered into force.

In the coming years, breakthroughs in transparency will come from Silicon Valley rather than Geneva.

Although Washington has hailed the Treaty on Open Skies as a force for increased transparency, the treaty's primary success has been to increase military cooperation among its now 34 signatories rather than to shed light on each country's defense activities. Open Skies surveillance flights are limited in frequency and must be scheduled in advance, and the aircraft involved operate sensors whose capabilities are confined by the terms of the treaty. It is thus relatively easy for participants to conceal sensitive activities or simply deny access to flights.

Russia, for example, has restricted observation flights over Moscow and Kaliningrad, and the United States has been unable to conduct flights over the Russian-Ukrainian border area since the July 2014 shootdown of Malaysia Airlines Flight 17. Russia's recent request to fly an aircraft equipped with treaty-compliant digital cameras over the United States has raised concerns in Washington that Moscow will exploit the treaty to gain an intelligence advantage. It remains to be seen if Washington will restrict Russian overflights or stay the course on Bush's vision for Open Skies.

Nearly a century of diplomatic efforts have incrementally advanced openness in international relations, but states still pick and choose which agreements they sign and don't necessarily comply with the ones they do accept. In the coming years, diplomacy will continue to play its part in encouraging states to be open about their activities, but true breakthroughs will come from Silicon Valley rather than Geneva.

I SPY

In the past two decades, rapid advances in information technology have fueled an explosion of commercial surveillance capabilities that will make it much harder for states to conceal their actions. Venture capitalists are pouring billions of dollars into commercial surveillance satellites, unmanned aerial vehicles, social media analytics, biometric technologies, and cyberdefenses to meet surging market demand. Heavy competition is driving down the cost of and improving the information available to individuals, businesses, and governments.

Consider the rapidly expanding market for commercial satellite imagery. Earth-observation satellites have been a potent force for transparency for over 40 years, revealing environmental degradation, highlighting the impacts of natural disasters, and providing evidence of mass graves and illicit nuclear facilities. High-resolution satellite imagery—detailed enough to see cars but not people—became commercially available in 2000. In 2015, U.S. regulators approved the sale of even more detailed imagery, clear enough to see objects only a foot long from almost 400 miles aboveground.

Despite its capabilities, today's commercial satellite imagery industry is ripe for disruption. Industry leaders, such as DigitalGlobe and Airbus Defence and Space, operate small fleets of huge satellites that cost hundreds of millions of dollars to build and launch. Yet neither company's small fleet of high-resolution satellites can cover more than five percent of the earth's landmass a day, nor can they revisit a specific area more than once or twice daily. Start-ups in Silicon Valley and abroad are already racing to fill this void with hundreds of inexpensive miniature satellites.

The global satellite imaging market is projected to grow from $2.5 billion in 2014 to $6.5 billion by 2023. The San Francisco–based Planet Labs, for example, has 37 satellites in orbit and plans to launch over 100 more this year, allowing the company to begin imaging the earth's entire landmass, in medium resolution, every day. Google's

Terra Bella has launched two high-resolution satellites (out of a planned 24) to collect both photographs and the first commercial high-definition video clips from space. BlackSky Global, another firm, will begin launching its 60-satellite constellation this year, which will take images of the earth's most populated areas 40 to 70 times a day. Urthecast and XpressSAR each plan to launch radar-imaging satellites, designed to collect data in any weather, day or night.

By 2021, over 600 commercial imagery satellites will likely peer down at the planet, an astonishing sevenfold increase over today. Customers will be able to quickly and inexpensively observe events around the world. BlackSky, for example, intends to offer high-resolution images on demand for less than $100 each, ten percent of today's average price. Since humans cannot hope to analyze the flood of inexpensive imagery manually, the industry is turning to artificial intelligence. Data analysis companies, such as Orbital Insight and Descartes Labs, have already automated tasks such as counting cars in retail parking lots and determining the health of cornfields in order to make lucrative market predictions.

The surge of satellite surveillance will benefit even those who cannot pay for it directly. Already, journalists, bloggers, and think tanks use satellite imagery to contextualize events, such as Russia's military deployments to Syria. Soon, increased coverage, lower prices, and automated processing will allow the press to closely monitor areas of interest to routinely discover new events or to provide the public with frequent updates on a natural disaster or an armed conflict. The commercial satellite industry is also expanding the free services it provides to NGOs and the UN for environmental, humanitarian, and disaster-relief purposes.

Commercial satellite imagery has proved particularly effective in empowering groups to monitor and publicize developments in areas where access is otherwise denied. The Asia Maritime Transparency Initiative, a project of the Center for Strategic and International Studies, for example, has used satellite imagery to catalog China's controversial reclamation of over 3,000 acres of land on seven disputed reefs (or reef-like formations) in the Spratly Islands, including the construction of three airstrips capable of supporting military aircraft. Major news organizations, such as the *Financial Times* and *The Washington Post*, regularly cite AMTI's analysis and immediately reported its sighting of what appears to be a new Chinese high-

Secrets don't make friends: Edward Snowden appearing from Moscow, September 2015

frequency radar installation on Cuarteron Reef. Senators John McCain and Jack Reed specifically cited AMTI's discoveries in their questions to Admiral Harry Harris, commander of U.S. Pacific Command, in a subsequent congressional hearing. Harris confirmed the reports and pledged to continue U.S. freedom-of-navigation operations in the South China Sea.

Commercial satellite imagery has also enabled 38 North, a website maintained by the U.S.-Korea Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies, to, among other things, track North Korea's preparations for nuclear tests and space launches. In January, 38 North detected and reported North Korea's early preparations to launch a satellite in violation of UN Security Council resolutions. The website's analysts monitored the preparations leading up to the launch in February in great technical detail, using high-resolution imagery that in the past would have been the sole purview of intelligence agencies.

Of course, commercial satellites cannot usher in a new age of transparency on their own. Most commercial imagery satellites require clear weather and daylight, and their sensors cannot identify or track small objects, nor can they see inside buildings or underground. Additionally, Washington maintains some export restrictions on American-licensed satellite companies to mitigate risks to national security. But

ANDREW KELLY / REUTERS

regulators have loosened these rules over time to avoid disadvantaging U.S. companies in the international imagery marketplace.

NOWHERE TO HIDE

Drones are another rapidly growing technology feeding ubiquitous surveillance. Satellites take photographs of large areas as they fly by, but drones, with their increasingly capable sensors, can provide real-time video or paparazzi-style close-ups of their targets. Hobbyists and businesses bought nearly a million drones in the United States last year, and the Federal Aviation Administration approved over 3,000 companies to use unmanned aerial vehicles commercially. With the worldwide military and commercial market for drones projected to triple in a decade, states will have more ways to collect intelligence, and so, too, will citizens.

In 2015, for example, a pro-Ukrainian volunteer regiment used drone footage to expose what it claimed was a large Russian base in Ukrainian territory, providing additional evidence to Western audiences of Moscow's continued, direct involvement in the conflict in Ukraine. After Nepal's devastating earthquakes in April and May of that year, NGOs such as the Humanitarian UAV Network, or UAViators, and GlobalMedic used drones to create detailed maps and 3-D models of the damage, aiding disaster-relief and reconstruction efforts. In December, several media outlets published private drone footage of the aftermath of China's Shenzhen landslide, documenting the destruction of an industrial park and the frantic search for survivors. Faced with this evidence, as well as with cell phone videos and social media reports, Beijing had little choice but to acknowledge the negligence at the heart of the tragedy.

The Shenzhen disaster was just one example of the power of social media to provide raw information. In 2013, a British blogger named Eliot Higgins painstakingly analyzed YouTube videos to determine what type of rockets Syria had used in its deadly gas attacks on civilians in two Damascus suburbs. Human Rights Watch included Higgins' detailed findings in its investigative report, which determined that the Syrian government was almost certainly responsible for the atrocities. Higgins' analysis also provided vital documentation for any future prosecution of these attacks as war crimes. In 2014, journalists and think tanks used photos and videos from social media to contradict Russia's official narrative of the conflict in eastern Ukraine, naming individual Russian soldiers and identifying specific armored vehicles that had crossed the international border to support the separatists.

The massive volume of social media content has created a market for companies to analyze it. Dataminr, one of the most prominent firms in this field, runs powerful algorithms on Twitter content to provide real-time alerts of business news and crises. Dataminr for News, a product the firm created for journalists, routinely supplies the first indications of a breaking story. In 2015, Dataminr alerted clients five minutes after the first explosion of the Paris terrorist attacks, 45 minutes before the Associated Press sent out its first tweet. Other firms are unleashing their own algorithms on social media to gauge investor sentiments, predict market performance, and monitor news on specific people, places, and events. The ability to inexpensively and quickly exploit Internet data will empower weaker actors to observe state actions, and even to identify their clandestine agents.

Existing technologies have already made it more difficult for anyone to remain anonymous, thanks to the digital fingerprints people leave behind. In 2010, for example, Dubai authorities used security camera footage and credit card records to quickly identify a team of alleged Israeli operatives who had killed a senior Hamas leader, Mahmoud al-Mabhouh, in his hotel room. Since then, market-driven advances in biometric technology have created additional hazards for undercover agents. Facial recognition software is now integrated into a variety of security systems: some casinos and high-end retailers use the technology to identify important customers. Additionally, iris and fingerprint scans have become more common at border control facilities. Such surveillance systems will benefit law enforcement and counterterrorism efforts, but the proliferation of these same technologies will also undermine the ability of states to employ spies or saboteurs with anonymity.

States will also have trouble acting anonymously in cyberspace, as private companies are increasingly willing and able to identify the sources of cyberattacks. The cybersecurity firm Mandiant made headlines in 2013 when it exposed a covert Chinese military cyberunit responsible for stealing massive amounts of data from U.S. government and corporate networks. In February 2015, the Russian security software firm Kaspersky Lab claimed to have identified spyware from an unnamed Western government on computers in 30 countries. And in January 2016, the cyber-intelligence firm iSIGHT Partners determined that a Russian group was probably behind a successful attack on the Ukrainian power grid. Despite these growing private-sector capabilities, the persistent difficulty of precisely identifying hackers will probably leave states with more freedom to act anonymously in cyberspace than in the physical world.

Nevertheless, governments contemplating cyber-espionage or cyber-attacks will be forced to consider the consequences of being caught. In 2015, Washington was ready to impose sanctions on Chinese firms and individuals for stealing trade secrets and intellectual property from U.S. companies. Instead, Beijing and Washington reached a landmark agreement, announced during Chinese President Xi Jinping's September 2015 visit to the United States, that both countries would refrain from intellectual property theft for commercial gain in cyberspace. Although private security firms and U.S. intelligence agencies are still assessing the effectiveness of this agreement, it is clear that China had to change its behavior—if only publicly—once its actions were exposed.

The new era of transparency will expose gaps between governments' rhetoric and reality.

The emerging age of transparency will not end the competition between hiders and seekers, as states will still have options to protect their most sensitive activities from prying eyes. Anyone can track commercial satellites online or with mobile apps such as SpyMeSat, so savvy governments will know when imagery satellites are overhead and can attempt to conceal their activity. The threat of drone surveillance, midair collisions, and even terrorist attacks has created a new market for systems that can detect and disrupt drones. Wealthy states will protect their most critical infrastructure with such systems, but they will be unable to defend themselves everywhere or to maintain constant vigilance against unmanned interlopers. On the social media front, governments may attempt to monitor and repress citizens' postings or discredit incriminating reports with misinformation, but such efforts buck technological trends that are empowering consumers, such as strong encryption.

Even states that mitigate risks of technological surveillance can still have their secrets divulged by insiders. The persistent threat of massive, Edward Snowden–style data theft will encourage governments to strengthen their personnel screening and safeguard their networks. Yet whether they are motivated by ideology, fame, or profit, insiders will continue to leak secrets into the public domain.

THE BEST DISINFECTANT

The new era of transparency will increasingly expose gaps between governments' rhetoric and reality, empowering domestic and international audiences to hold leaders more accountable for their decisions. Of course, governments that typically comply with their own laws and with international norms are more likely to address their transgressions when confronted. But leaders of all stripes may still attempt to spin an alternate narrative rather than change their behavior. In either case, transparency will undermine strategies that rely on secrecy and strengthen adherence to international norms.

In the early years of this century, for example, public revelations forced the CIA to close most of its post-9/11 overseas detention facilities, even before President George W. Bush revealed the existence of these facilities in 2006, according to the Senate Select Committee on Intelligence's 2014 report on the CIA program. Later, press revelations, government disclosures, and public pressure led Washington to investigate and debate the efficacy and morality of the CIA's "enhanced interrogation techniques," including waterboarding. Ultimately, President Barack Obama banned such techniques via executive order in 2009, and the U.S. Congress outlawed them in 2015.

After the former NSA contractor Snowden leaked U.S. classified information in 2013 that revealed details of U.S. and British government electronic surveillance programs, privacy advocates accused the United Kingdom of monitoring Internet communications illegally. The British Parliament's Intelligence and Security Committee conducted a detailed investigation into these allegations. Although the committee concluded that the nation's intelligence agencies had done nothing illegal, it also found that existing British law provided insufficient oversight and transparency. The committee's report, in addition to a separate ruling by the United Kingdom's Investigatory Powers Tribunal, revealed unprecedented details about the government's surveillance policies and capabilities. The public debate that followed forced London's Home Office to revise a draft surveillance reform bill to strengthen privacy protections.

In contrast, authoritarian regimes in countries with weak, uninformed, or repressed civil societies will be less susceptible to transparency's pressures. Russian authorities have falsely asserted that the Ukrainian military, rather than Russian-backed militants, shot down Malaysia Airlines Flight 17 and that Russian air strikes in Syria primarily targeted the self-proclaimed Islamic State (or ISIS). Despite overwhelming publicly available evidence contradicting those claims, in both cases the Russian public has generally accepted the Kremlin's version of events. Russia's state-sponsored media have been decisive in discrediting critics and shaping domestic opinion, even if Moscow's stories fall flat internationally. Moscow cleverly goes through the motions of openness—issuing press statements and releasing selected portions of cockpit video of its air strikes in Syria, for example—without actually revealing the truth.

Ultimately, transparency will weaken strategies that rely on secrecy, even if they are legitimate. It will become riskier for states to dispatch military forces, spies, or diplomats in secret. Earlier this year, for example, commercial imagery revealed the expansion of a Kurdish-controlled runway in northeastern Syria, appearing to validate press reports that U.S. special operations forces were planning to operate in the area. In the future, such developments could be exposed in days or hours rather than weeks, threatening the safety and success of forward-deployed forces. Transparency may also spoil sensitive diplomatic negotiations or intelligence relationships that cannot survive in the open.

The trend toward ubiquitous surveillance will therefore provide an unprecedented level of transparency in global affairs. Yet transparency will change only the nature of the struggle between international actors, not the unending contest itself. Powerful and pariah states will still violate norms in pursuit of their interests, but they will have to do so primarily in the light of day, rather than in the shadows.

The Clean Energy Revolution

Fighting Climate Change With Innovation

Varun Sivaram and Teryn Norris

As the UN Climate Change Conference in Paris came to a close in December 2015, foreign ministers from around the world raised their arms in triumph. Indeed, there was more to celebrate in Paris than at any prior climate summit. Before the conference, over 180 countries had submitted detailed plans to curb their greenhouse gas emissions. And after two weeks of intense negotiation, 195 countries agreed to submit new, stronger plans every five years.

But without major advances in clean energy technology, the Paris agreement might lead countries to offer only modest improvements in their future climate plans. That will not be enough. Even if they fulfill their existing pledges, the earth will likely warm by some 2.7 to 3.5 degrees Celsius—risking planetary catastrophe. And cutting emissions much more is a political nonstarter, especially in developing countries such as India, where policymakers must choose between powering economic growth and phasing out dirty fossil fuels. As long as this tradeoff persists, diplomats will come to climate conferences with their hands tied.

It was only on the sidelines of the summit, in fact, that Paris delivered good news on the technology front. Bill Gates unveiled the Breakthrough Energy Coalition, a group of more than two dozen wealthy sponsors that plan to pool investments in early stage clean energy technology companies. And U.S. President Barack Obama announced Mission Innovation, an agreement among 20 countries—including the world's top three emitters, China, the United States, and India—

VARUN SIVARAM is Douglas Dillon Fellow at the Council on Foreign Relations.

TERYN NORRIS is a former Special Adviser at the U.S. Department of Energy.

to double public funding for clean energy R & D to $20 billion annually by 2020. Washington will make or break this pledge, since over half of the target will come from doubling the U.S. government's current $6.4 billion yearly budget.

Fighting climate change successfully will certainly require sensible government policies to level the economic playing field between clean and dirty energy, such as putting a price on carbon dioxide emissions. But it will also require policies that encourage investment in new clean energy technology, which even a level playing field may not generate on its own. That will take leadership from the United States, the only country with the requisite innovative capacity. In the past, the United States has seen investment in clean energy innovation surge forward, only to collapse afterward. To prevent this from happening again, the government should dramatically ramp up its support for private and public R & D at home and abroad. The task is daunting, to be sure, but so are the risks of inaction.

DON'T STOP THINKING ABOUT TOMORROW

The key to a low-carbon future lies in electric power. Improvements in that sector are important not just because electric power accounts for the largest share of carbon dioxide emissions but also because reaping the benefits of innovations downstream—such as electric vehicles—requires a clean electricity supply upstream. Fossil-fueled power plants now account for nearly 70 percent of electricity globally. But by 2050, the International Energy Agency has warned, this figure must plummet to seven percent just to give the world a 50 percent chance of limiting global warming to two degrees Celsius. More fossil-fueled power is acceptable only if the carbon emissions can be captured and stored underground. And zero-carbon power sources, such as solar, wind, hydroelectric, and nuclear power, will need to grow rapidly, to the point where they supply most of the world's electricity by the middle of the century.

The problem, however, is that the clean technologies now making progress on the margins of the fossil-fueled world may not suffice in a world dominated by clean energy. The costs of solar and wind power, for example, are falling closer to those of natural gas and coal in the United States, but this has been possible because of flexible fossil fuel generators, which smooth out the highly variable power produced by the sun and wind. Ramping up the supply of these intermittent sources will oversupply the electrical grid at certain times, making renewable power less valuable and requiring extreme swings in the dwindling output of fossil fuel generators. Nuclear and hydroelectric power, for their part, are more reliable, but both have run into stiff environmental opposition. As a result, trying to create a zero-carbon power grid with only existing technologies would be expensive, complicated, and unpopular.

Similarly, cleaning up the transportation sector will require great technological leaps forward. Alternative fuels are barely competitive when oil prices are high, and in the coming decades, if climate policies succeed in reducing the demand for oil, its price will fall, making it even harder for alternative fuels to compete. The recent plunge in oil prices may offer a mere foretaste of problems to come: it has already put biofuel companies out of business and lured consumers away from electric vehicles.

All of this means that a clean, affordable, and reliable global energy system will require a diverse portfolio of low-carbon technologies superior to existing options. Nuclear, coal, and natural-gas generators will still be necessary to supply predictable power. But new reactor designs could make nuclear meltdowns physically impossible, and nanoengineered membranes could block carbon emissions in fossil-fueled power plants. Solar coatings as cheap as wallpaper could enable buildings to generate more power than they consume. And advanced storage technologies—from energy-dense batteries to catalysts that harness sunlight to split water and create hydrogen fuel—could stabilize grids and power vehicles. The wish list goes on: new ways to tap previously inaccessible reservoirs of geothermal energy, biofuels that don't compete with food crops, and ultra-efficient equipment to heat and cool buildings.

Trying to create a zero-carbon power grid with only existing technologies would be expensive, complicated, and unpopular.

Every one of those advances is possible, but most need a fundamental breakthrough in the lab or a first-of-its-kind demonstration project in the field. For example, the quest for the ideal catalyst to use sunlight to split water still hasn't produced a winning chemical, and an efficient solar power coating called "perovskite" still isn't ready for widespread use. So it is alarming that from 2007 to 2014, even as global financial flows to deploy mature clean energy doubled to $288 billion, private

investment in early stage companies sank by nearly 50 percent, to less than $2.6 billion. But the United States can reverse that trend.

THIRD TIME'S THE CHARM?

Since the development of civilian nuclear power after World War II, the United States has experienced two booms in clean energy innovation, followed by two busts. The first boom, a response to the oil shocks of the 1970s, was driven by public investment. From 1973 to 1980, the federal government quadrupled investment in energy R & D, funding major improvements in both renewable and fossil fuel energy sources. But when the price of oil collapsed in the 1980s, the administration of President Ronald Reagan urged Congress to leave energy investment

decisions to market forces. Congress acquiesced, slashing energy R & D funding by more than 50 percent over Reagan's two terms.

The second wave of investment in clean energy innovation began with the private sector. Soon after the turn of the millennium, venture capital investors began pumping money into U.S. clean energy start-ups. Venture capital investment in the sector grew tenfold, from roughly $460 million per year in 2001 to over $5 billion by 2010. Thanks to Obama's stimulus package, federal funding soon followed, and from 2009 to 2011, the government plowed over $100 billion into the sector through a mix of grants, loans, and tax incentives (although most of this influx subsidized the deployment of existing technologies). Some of the start-ups from this period became successful publicly traded companies, including the electric-car maker Tesla, the solar-panel installer SolarCity, and the software provider Opower.

But the vast majority failed, and the surviving ones returned too little to make up for the losses. Indeed, of the $36 billion that venture capital firms invested from 2004 to 2014, up to half may ultimately be lost. The gold rush ended abruptly: from 2010 to 2014, venture capital firms cut their clean energy investment portfolios by 75 percent. And the federal government, reeling from political blowback over the bankruptcies of some recipients of federal loan guarantees (most famously, the solar-panel manufacturer Solyndra), pared back its support for risky ventures, too.

Yet all was not lost, for the failures of these two waves offer lessons for how to make sure the next one proves more enduring. First, they revealed just how important government funding is: after the drop in federal energy R & D in the 1980s, patent filings involving solar, wind, and nuclear power plunged. Today, although the United States is the largest funder of energy R & D in the world, it chronically underspends compared with its investments in other national research priorities. Its $6.4 billion clean energy R & D budget is just a fraction of the amount spent on space exploration ($13 billion), medicine ($31 billion), and defense ($78 billion). Given the gap, Congress should follow through on the Mission Innovation pledge and at least double funding for clean energy R & D. Already, Congress increased spending on applied energy R & D by ten percent in its 2016 budget, more than it increased spending on any other major R & D agency or program. But starting in 2017, doubling the budget in five years will require annual increases of at least 15 percent.

The second lesson is that the government should fund not only basic research but applied research and demonstration projects, too. Washington's bias goes back decades. In his seminal 1945 report, *Science, the Endless Frontier*, Vannevar Bush, President Franklin Roosevelt's top science adviser, urged the government to focus on basic research, which would generate insights that the private sector was supposed to translate into commercial technologies. Successive administrations mostly heeded his advice, and Reagan doubled down on it, slashing nearly all funding for applied energy R & D. By the late 1990s, basic research would account for 60 percent of all federal spending on energy R & D. Instead of creating space for the private sector to pick up where the government left off, however, the budget cuts scared it away. Private investment shrank by half from 1985 to 1995, stranding public investments in alternative fuels, solar photovoltaic panels, and advanced nuclear reactors.

A similar story unfolded at the end of the second boom in clean energy innovation. When one-time stimulus funding expired after 2011, public funding for demonstration projects—which prove whether new technologies work in real-world conditions—fell by over 90 percent. Private investors had expected to share the risk of such projects with the federal government, but when government funding evaporated, investors pulled their money out—canceling, among others, several projects to capture and store carbon emissions from coal power plants.

Thus, policymakers should increase the kind of public investment that attracts private capital. To that end, the first priority should be to restore public funding for demonstration projects. The last redoubt of support for these projects can be found in the Department of Energy's politically embattled loan guarantee program. To insulate funding from political caprice, the American Energy Innovation Council, a group of business leaders, has proposed an independent, federally chartered corporation that would finance demonstration projects. Others have proposed empowering states or regions to fund their own projects, with matching federal grants. If they make it past Congress, both proposals could unlock considerable private investment.

The Department of Energy has made more progress in supporting technologies not yet mature enough for demonstration. In 2009, with inspiration from the Defense Advanced Research Projects Agency, or DARPA, the U.S. military's incubator for high-risk technologies, it created the Advanced Research Projects Agency–Energy, or ARPA-E. Several ARPA-E projects have already attracted follow-on investment from the private sector. In 2013, for example, Google acquired Makani Power, a start-up that is developing a kite that converts high-altitude wind energy into power. The department has also curated public-private partnerships among the government, academics, and companies—dubbed "innovation hubs"—to develop advanced technologies. Obama has advocated tripling ARPA-E's budget to $1 billion by 2021 and creating ten new public-private research centers around the country. Congress should approve these proposals.

The Department of Energy should expand its support for one type of public-private partnership in particular: industrial consortia that pool resources to pursue shared research priorities. Once again, DARPA provides a model. In the 1980s, it helped fund a consortium of computer chip manufacturers called SEMATECH, through which the industry invested in shared R & D and technical standards. By the next decade, the United States had regained market leadership from Japan. Clean energy innovation, by contrast, suffers from corporate apathy. From 2006 to 2014, U.S. firms spent a paltry $3 billion per year on in-house clean energy R & D. They were also reluctant to outsource their energy R & D, acquiring clean energy start-ups only half as often as they did biomedical start-ups.

Public-private partnerships should help diversify the set of private investors funding clean energy innovation. Indeed, venture capitalists alone are insufficient, since clean energy investments require capital for periods longer than venture capitalists generally favor. The Breakthrough Energy Coalition may help solve that problem by infusing the sector with more patient capital. Gates has explained that he and his fellow investors would be willing to wait for years, even decades, for returns on their investments. But his vision depends on the government also ramping up support.

Past failures offer a third and final lesson for policymakers: the need to level the playing field on which emerging clean energy technologies compete against existing ones. In the electricity sector in particular, innovative start-ups are at a disadvantage, since they lack early adopters willing to pay a premium for new products. The biggest customers, electric utilities, tend to be highly regulated territorial monopolies that have little tolerance for risk and spend extremely little on R & D (usually 0.1 percent of total revenues). New York and California are reforming their regulations to encourage utilities to adopt new technologies faster; the federal government should support these efforts financially or, at the very least, get out of the way.

Indeed, government intervention can sometimes be counterproductive. Many current clean energy policies, such as state mandates for utilities to obtain a certain percentage of their power from renewable energy and federal tax credits for solar and wind power installations, implicitly support already-mature technologies. Better policies might carve out allotments or offer prizes for emerging technologies that cost more now but could deliver lower costs and higher performance later. The government could even become a customer itself. The military, for example, might buy early stage technologies such as flexible solar panels, energy-dense batteries, or small modular nuclear reactors.

INNOVATING ABROAD

Clean energy innovation at the international level suffers from similar problems. Like Washington, other governments spend too little on R & D, with the share of all publicly funded R & D in clean energy falling from 11 percent in the early 1980s to four percent in 2015. Thanks to Mission Innovation, that trend could soon be reversed. But if spending rises in an uncoordinated way, governments may duplicate some areas of research and omit others.

Since governments prize their autonomy, the wrong way to solve this problem would be through a centralized, top-down process to direct each country's research priorities. Instead, an existing institution should coordinate spending through a bottom-up approach. The most logical body for that task is the Clean Energy Ministerial, a global forum conceived by the Obama administration that brings together energy officials from nearly every Mission Innovation country. Yet the CEM has no permanent staff, and without support from the next U.S. administration, it might disband. The Obama administration should therefore act quickly to convince its Mission Innovation partners to help fund a permanent secretariat and operating budget for the CEM. Once that happens, the body could issue an annual report of each member's R & D expenditures, which countries could use to hold their peers accountable for their pledges to double funding. The CEM could also convene officials to share trends about the frontiers of applied research, gleaned from grant applications submitted to national funding bodies.

Then there is the problem of foreign companies' aversion to investing in innovation. Producers of everything from solar panels to batteries, mostly in Asia, have focused instead on ruthless cost cutting and in many cases have taken advantage of government assistance to build up massive manufacturing capacity to churn out well-understood technologies. Today, over two-thirds of solar panels are produced in China, where most firms spend less than one percent of their revenue on R & D. (In fact, it was largely the influx of cheap, cookie-cutter solar panels from China that caused U.S. solar start-ups to go bankrupt at the beginning of this decade.)

Not only does this global race to the bottom stunt clean energy innovation; it also matches up poorly with the United States' competitive strengths. In other industries, leading U.S. firms generate economic gains both at home and abroad by investing heavily in R & D. In the electronics, semiconductor, and biomedical industries, for instance, U.S. companies reinvest up to 20 percent of their revenues in R & D.

To encourage foreign companies to invest more in clean energy R & D, the United States should embrace public-private collaboration. A good model is the U.S.-China Clean Energy Research Center, or CERC, which was set up in 2009 and is funded by the U.S. and Chinese governments, academic institutions, and private corporations. Notably, CERC removes a major obstacle to international collaboration: intellectual property theft. Participants are bound by clear rules about the ownership and licensing of technologies invented through CERC. And unless they agree otherwise, they must submit disputes to international arbitration governed by UN rules. More than 100 firms have signed on, and in 2014, China and the United States enthusiastically extended the partnership. It's time for the United States to apply CERC's intellectual property framework to collaborations with other countries, such as India, with which it has no such agreement.

THE NEXT REVOLUTION

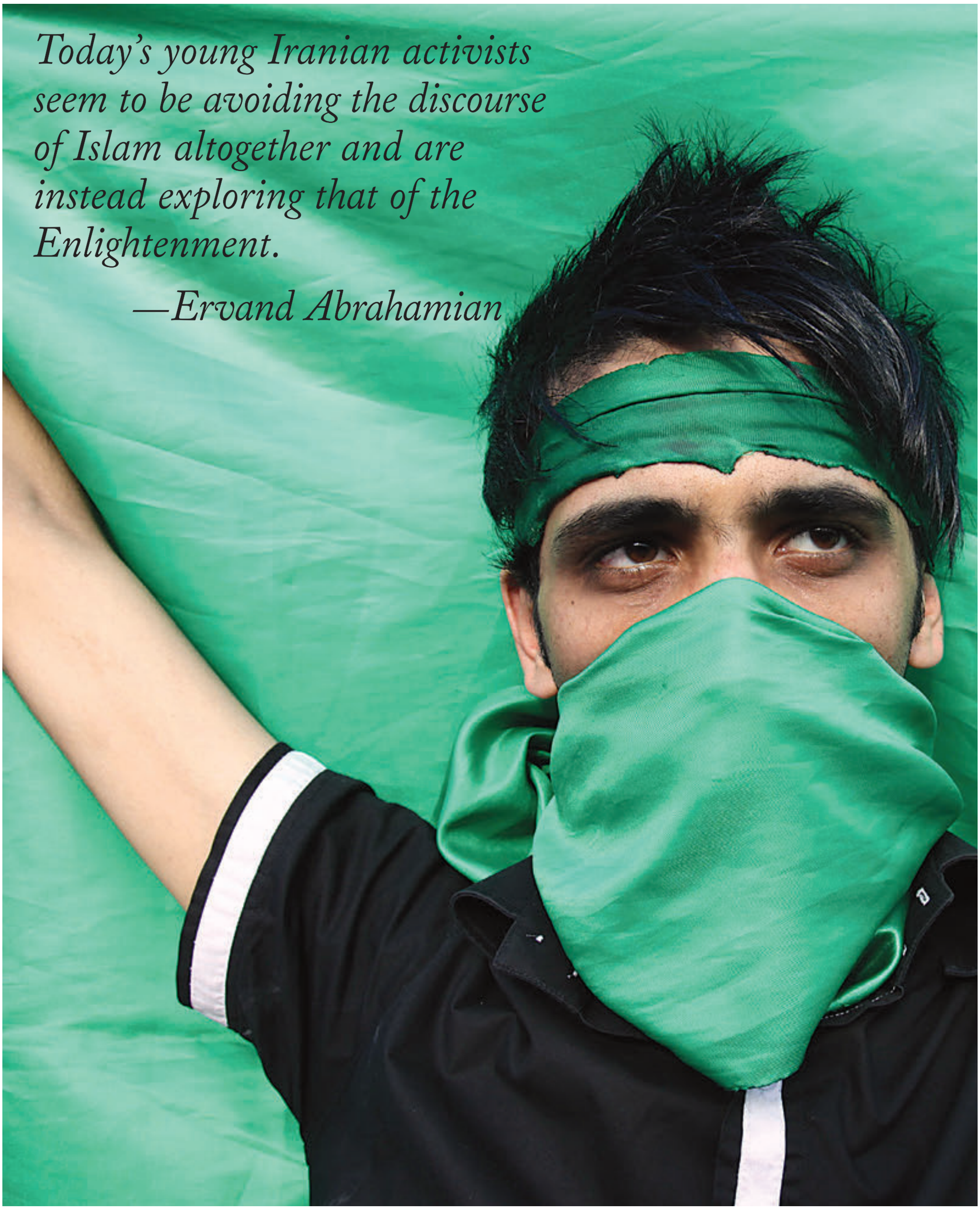
By investing at home and leading a technology push abroad, the United States would give clean energy innovation a badly needed boost. Energy executives would at last rub elbows with top academics at technology conferences. Industrial consortia would offer road maps for dramatic technological improvements that forecast future breakthroughs. And institutional investors would bet on start-ups and agree to wait a decade or more before seeing a return.

To many in Washington, this sounds like an expensive fantasy. And indeed, transforming the energy sector into an innovative powerhouse would prove even harder and costlier than the Manhattan Project or the Apollo mission. In both cases, the government spent billions of dollars on a specific goal, whereas success in clean energy innovation requires both public and private investment in a wide range of technologies.

Yet the United States has achieved similar transformations before. Take the biomedical industry. Like clean energy start-ups, biomedical start-ups endured boom-and-bust investment cycles in the 1980s and 1990s. But today, partly thanks to high and sustained public funding, the private sector invests extensively in biomedical innovation. One might object that the biomedical industry's high profit margins, in contrast to the slim ones that characterize the clean energy industry, allow it to invest more in R & D. But the clean energy sector need not be condemned to permanently small profits: innovative firms could earn higher margins than today's commodity producers by developing new products that serve unmet demands.

With clean energy, the stakes could hardly be higher. If the world is to avoid climate calamity, it needs to reduce its carbon emissions by 80 percent by the middle of this century—a target that is simply out of reach with existing technology. But armed with a more potent low-carbon arsenal, countries could make pledges to cut emissions that were both ambitious and realistic. Emerging economies would no longer face tradeoffs between curbing noxious fossil fuels and lifting their populations out of energy poverty. And the United States would place itself at the forefront of the next technological revolution.

REVIEWS & RESPONSES



NAR PHOTOS / REDUX

Reading Hume in Tehran

The Iranian Revolution and the Enlightenment

Ervand Abrahamian

Children of Paradise: The Struggle for the Soul of Iran
BY LAURA SECOR. Riverhead Books, 2016, 528 pp.

When Iran makes headlines, it is usually as a result of its conflicts with other countries. Far less attention is paid to Iran's conflicts with itself, which are still raging nearly 40 years after the revolution that brought forth the Islamic Republic. Despite the images of a monolithic, repressed, hyper-devout society that sometimes serve as a shorthand for Iran in Western media, the country is in fact the site of a great deal of political and ideological contestation. As Laura Secor writes in her new book, *Children of Paradise*, "Iran does not have a culture of passive citizenship, despite the best efforts of its rulers, past and present, to produce one. What it does have in many quarters is a restless determination to challenge injustice and to seize control of its destiny."

Secor, who has reported from and written about Iran for *The New Yorker*, *The New York Times Magazine*, and this publication, has produced a vibrant panorama of contemporary Iran that doubles as a thorough intellectual and political history of the country's past four decades. She tells the stories of the men who have held power, and also those of the men—and, increasingly, women—who have opposed them: activists, journalists, lawyers, university students, and ordinary citizens who have risked their lives by challenging authority.

The Iran that emerges from her account is full of contradictions, complexities, and paradoxes. The book ranges widely, but it is held together by an underlying narrative of intellectual evolution: the descent of dissent, from the revolutionary thinkers who helped bring down the shah, to the reformists who later sought to liberalize Iranian theocracy, to the contemporary generation of activists who have directly challenged clerical rule and paid a heavy price. Throughout, the book calls attention to how each generation has dealt with the Enlightenment concepts of rights and equality and with the desire to maintain religious legitimacy. Today's activists and reformers still struggle to reconcile the fundamental beliefs of Islam with the Enlightenment concept that all people, irrespective of belief or nonbelief, are equal and endowed by nature with inalienable rights. The conservatives who rule the country, on the other hand, suffer from no such dilemma: they hold that only true believers are entitled to participate in high-level politics—and they insist that only they themselves can determine who counts as a true believer.

AGAINST THE WEST

Secor begins with a highly accessible introduction to the Iranian radicals of the 1960s and 1970s who helped lay the

ERVAND ABRAHAMIAN is Distinguished Professor of History at Baruch College.

groundwork for the revolution—thinkers whose legacies continue to shape Iranian politics but who remain virtually unknown in the West. She focuses on the sociologist Ali Shariati and the social critic Jalal Al-e Ahmad, who were prominent among a set of intellectuals who strove to articulate an anticolonial and anti-Western but profoundly modern vision of Iran as a revolutionary Shiite society. The shah had allied Iran with the United States and had opened up the country to Western influence and money, steps that resulted from and also accelerated what these dissidents derided as *gharbzadegi*: the "Westoxification" that led Iranian elites to slavishly embrace foreign ideas and technologies. Writers such as Shariati and Al-e Ahmad sought to reclaim an "authentic" Iranian identity and reinterpreted Shiite theology as a revolutionary political ideology, refiguring the martyred Imam Hussein—revered by Shiites as the rightful heir to the Prophet Muhammad—

as a kind of seventh-century Che Guevara. They held that "Eastern" spirituality was superior to "Western" materialism and argued that Westerners could not possibly understand Iran because the country's unique culture would always be fundamentally alien to Western minds.

Most of these nativist intellectuals were religious dissidents. (Under the shah, Shariati was arrested a number of times and ultimately died in exile.) Others were leftists with Marxist sympathies. And some were even conservative supporters of the shah. But most shared one common feature: a rejection of the fundamental principles of the Enlightenment. For pro-regime intellectuals, the Enlightenment concept of individual rights placed unacceptable limitations on the state. For Marxists, the need for national unity against the shah's tyranny and foreign influences took precedence over claims to individual rights. And for the religious dissidents, Enlightenment thinking supplanted God with humanity and thereby opened the way for materialism, atheism, and the toleration of religious "deviations" such as Bahaism. As Shariati put it, he chose to take shelter in the mosque to protect himself from the noise and dazzle of the Enlightenment, which he feared put mankind on a false path.

But Shariati, Al-e Ahmad, and their intellectual allies were a bit selective about their antipathy to the West: they were quick to accuse their opponents of *gharbzadegi* while in the same breath praising Western critics of Enlightenment thought, such as Martin Heidegger and Michel Foucault, and adapting their ideas to the Iranian context. Indeed, the philosopher Ahmad Fardid, who coined the term *gharbzadegi* and later became a champion of Iranian Islamism, started out as a monarchist and right-wing Heideggerian. Such tensions in Iranian revolutionary thought would become only more pronounced after the shah fled Iran and his chief antagonist, Ayatollah Ruhollah Khomeini, returned from exile and replaced the shah's monarchy with a theocratic system headed by himself.

CLERICAL ERRORS

After Khomeini took power, he quickly sidelined the leftists and secularists who had joined forces with the Islamists to oppose the shah's regime. It soon became clear that under Khomeini, the Islamic Republic would not usher in the rule of the intelligentsia, as Shariati and other dissidents had hoped and expected. Rather, Khomeini's new constitution institutionalized the concept of *velayat-e faqih*, the divine right of the clergy to rule.

By the 1990s, some of the intellectuals who had eagerly participated in the revolution as young people had grown disillusioned, as the clerics and security forces maintained an ever-firmer grip on Iranian society and politics. This set of former revolutionaries began to turn away from the old discourse and search for a new language to articulate their demands and grievances, hoping that this might be the first step toward reforming the system. Theorists and activists who had once promoted ideas such as *gharbzadegi*, *khesh* (roots), *shahed* (martyrdom), and *towhid* (solidarity) now hailed *demokrasi*, *azadi* (liberty), *barabari* (equality), *huquq-e beshar* (human rights), *jameh-e madani* (civil society), and *shahrvandi* (a newly coined termed meaning "citizenship"). These intellectuals became known as "the new Islamic thinkers," and they represented a repudiation of the earlier line of revolutionary thought: one of them, Akbar Ganji, even declared that Shariati's work should be relegated to a museum.

The leading figure among the new Islamic thinkers was Abdolkarim Soroush. In the 1970s, Soroush was a young admirer of Shariati, doing his graduate studies in chemistry and philosophy in the United Kingdom. His writings on science and religion got the attention of many revolutionaries and dissidents, including Khomeini himself. Soroush returned to Iran in 1979, after the revolution, and soon thereafter, Khomeini appointed him to a committee charged with carrying out an Islamic "cultural revolution" in higher education (modeled in part on the campaign that Mao Zedong had earlier launched in China) that would rid Iran's universities of Western influences. But once Soroush realized that the clergy had no intention of sharing power with others, especially with reformist intellectuals, he shifted gears, eschewing radical Islamism in favor of a vision more in tune with liberalism. By the mid-1990s, he had become a target for militant conservatives. At his lectures, hard-liners physically assaulted him and members of the audience. The authorities shut down the magazine he had founded, *Kiyan*. He was stripped of academic appointments, questioned by intelligence agencies, and even publicly criticized by Iran's supreme leader, Ayatollah Ali Khamenei. Soroush had little choice but to flee into exile, eventually taking a number of academic positions in the United States.

Soroush has been absent from Iran for many years, but Secor rightly places him at the center of the intellectual transformation that has taken place there during the past two decades. He has become for a new generation of activists and thinkers what Shariati was for the original revolutionary movement. Drawing inspiration from the work of the Austrian British philosopher Karl Popper, especially *The Open Society and Its Enemies*, Soroush has set out to slim down Islam, transforming it from the bloated ideology it became under Khomeini into a religion of personal piety and morality centered on the individual's relationship with God. As Soroush told an interviewer in 1997, he seeks to purify religion, "making it lighter and more buoyant . . . [and] more slender by sifting, whittling away, erasing the superfluous layers off the face of religiosity."

BEYOND BELIEF

Secor sympathizes with Soroush and other reformist intellectuals of his generation. That sympathy, however, leads her to underestimate two fundamental weaknesses of their movement. First, many reformists discovered the virtues of individual rights only after they had lost influence or had been pushed out of the ruling elite, more often as a result of personal disputes or power struggles than because of genuine philosophical disagreements with the regime. Take, for example, Grand Ayatollah Hossein Ali Montazeri, revered by reformers as a great champion of individual rights. Montazeri, who died in 2009, had been Khomeini's designated heir until 1989, when, according to reformers, he broke with the regime over its prohibition of political parties and its efforts to "export" Iran's revolution abroad, among other issues. A more skeptical view is that Khomeini's inner circle had already started to ease out Montazeri after a relative of his was caught leaking information to media outlets about the secret U.S.-Iranian dealings that took place as part of the Iran-contra affair and that had embarrassed the regime. Only after it had become clear that Montazeri had fallen out of favor did he begin to publicly challenge the regime on substantive matters.

Second, although Iranian reformists have advocated enhanced individual rights, they have not embraced Enlightenment ideals more generally. They freely use the language of "modernity"—their pronouncements frequently feature that term—but neglect the fact that there are many varieties of modernity, including Stalinism, Maoism, fascism, and Nazism.

The main stumbling block preventing the reformists from a full embrace of Enlightenment values are the concepts of universal liberty and equality. The Enlightenment replaced divine authority with popular sovereignty, religious duties with individual rights, and, most threatening of all, obligations to God with inalienable rights derived from nature. In the Enlightenment tradition, such rights belong to all. But most reformist intellectuals have been willing to accept notions of liberty and equality only when applied to "true" Muslims. Mohammad Khatami, the reformist who served as president of Iran from 1997 to 2005 and who remains an influential figure, divides humanity into *khody* ("us," meaning Muslims) and *kheyr-e-khody* ("them," meaning unbelievers). Even Soroush, the reformist who comes closest to Enlightenment values, tends to endorse the idea of a political distinction between believers and everyone else.

Secor writes that for Soroush, "there was no reason Muslim societies should not draw on secular political theories in order to design the best possible state. . . . What mattered was that those who entered politics in a Muslim state have good Muslim values. From there, everything could be debated and contested on rational merits, in the open air." But that position requires one to determine what constitutes "good Muslim values." As Soroush learned the hard way, for those in power in Iran, demonstrating "good Muslim values" requires one to adhere not just to Islam but to the concept of *velayat-e faqih*, and also to demonstrate loyalty to Iran's supreme leader—all of which flies in the face of Enlightenment values.

This problem of unbelief has plagued reformers for decades. Consider the mass executions of imprisoned dissidents and antiregime militants that Khomeini ordered near the end of the Iran-Iraq War in 1988. Secor movingly and vividly covers this grotesque bloodletting. The executions were carried out after Khomeini issued two secret fatwas (religious decrees), one calling for the death of prisoners who were *moharebs* (those warring against God) and the other condemning those who were *mortads* (apostates). The first was directed against members of the Mojahedin, a radical Islamist organization led by young intellectuals from devout Muslim backgrounds who had waged a dramatic guerrilla war against the shah but had also challenged Khomeini's regime after the revolution. The second fatwa condemned antiregime leftists and nationalists who had grown up in Muslim families but no longer believed in Islam. The prisons set up inquisition courts that asked inmates whether they identified as Muslims, believed in basic Islamic precepts (especially the existence of an afterlife), performed their daily prayers, and fasted during Ramadan. Those who answered in the negative were promptly hanged.

In his memoirs, Montazeri claims that he wrote privately to Khomeini to protest the first set of death sentences on the grounds that the Mojahedin prisoners had already been convicted of lesser crimes and were no longer participating in violent resistance. Montazeri, however, avoided criticizing the second fatwa, which condemned the leftists and nationalists to death, probably because he did not want to get into a discussion of apostasy, which might have forced him to argue that unbelievers deserved the same rights as Muslims. That, apparently, would have been a bridge too far. If any influential reformers objected to the second fatwa, they kept it to themselves. Even now, three decades later, their silence remains deafening.

THE KIDS ARE ALRIGHT

Today, the new Islamic thinkers have been supplanted to some extent by a new generation of activists who came of age or were born after 1979 and who can be described as the revolution's grandchildren. They formed the backbone of the so-called Green Movement that coalesced to protest the results of the 2009 presidential election, which returned the hard-liner Mahmoud Ahmadinejad to office despite charges of vote rigging. Secor provides colorful portraits of these young dissidents: university students, journalists turned bloggers, and human rights campaigners working for women's equality or against the death penalty.

The regime mercilessly crushed the Green Movement through mass arrests, beatings, and forced confessions. Opposition figures aligned with the movement, such as Mir Hossein Mousavi and Mehdi Karroubi, have remained under house arrest even during the presidency of the relative moderate, Hassan Rouhani, who succeeded Ahmadinejad in 2013. Although the promise of the Green Movement seems to have been extinguished, the reformist spirit is not altogether dead. As Secor's book reveals, one hopeful aspect of today's younger activists and intellectuals is that, unlike thinkers such as Soroush, who sought to criticize Iran's theocracy without abandoning religious thought and language, they seem to be avoiding the discourse of Islam altogether and are instead exploring that of the Enlightenment.

In this way, the new reformists are emulating a much earlier generation of Iranian liberals: the intelligentsia behind Iran's constitutional revolution of 1905–7, which challenged the Qajar monarchy and led to the creation of Iran's first parliament. The constitutional revolution's leaders consciously avoided framing their appeals in religious terms precisely because they knew that doing so would play into the hands of the clergy, who could ultimately delegitimize the revolutionaries by calling into question their devotion to Islam. Soroush's generation, in contrast, allowed itself to be sucked into the whirlpool of Islamic discourse in part because the popular mood after the revolution seemed to demand it and in part because Khomeini's towering charisma allowed him to dominate Iranian politics so thoroughly that it became difficult to participate in debates without addressing religious thought.

But today's activists and reformists do not have to contend with a figure such as Khomeini, and they are discovering that an increasing segment of the Iranian population is no longer enamored of the Khomeinist notion that "Islam is the solution." So although the clerics remain firmly in control for the moment, it is unlikely that the regime will be able to avoid for much longer the difficult task of acknowledging and responding meaningfully to the central tenets of the Enlightenment, whose appeal refuses to wither away.

Recent Books

Political and Legal

G. John Ikenberry

Democracy in Decline?
EDITED BY LARRY DIAMOND AND MARC F. PLATTNER. Johns Hopkins University Press, 2015, 144 pp.

The Puzzle of Non-Western Democracy
BY RICHARD YOUNGS. Carnegie Endowment for International Peace, 2015, 240 pp.

Liberal democracy is in trouble. The great wave of democratization that spread across the developing world at the end of the Cold War has long since crested. Today, it is the undertow of dashed expectations that seems to define the fate of modern democracy: political gridlock, economic stagnation, increasing inequality, fraying social contracts, reactionary nationalism, and rising authoritarianism. In their illuminating collection, Diamond and Plattner have assembled leading experts who offer mostly grim assessments of the situation. Diamond, in his own contribution, sifts through the data and reports that the democratic world is in "recession," sharing the stunning observation that during the past three decades, fully 24 percent of the world's democracies have broken down. Some have been the victim of military coups, but more often, democracies have experienced a slow degradation of political rights and legal procedures through electoral fraud and the rise of authoritarian leaders. Robert Kagan emphasizes the importance of geopolitical leadership as a stabilizer and promoter of democracy. But such leadership is difficult to provide when the main leader—the United States—is itself so troubled. Francis Fukuyama points to the failure of new democracies to build functioning modern states, which is an essential precondition for high-quality governance. The only good news that the contributors offer is that authoritarian states remain unstable and incapable of mastering the long-term challenges of modernizing societies and economies.

What if the problem is that Western-style democracy simply does not fit the circumstances of non-Western societies? In *The Puzzle of Non-Western Democracy*, Youngs explores the rich but muddled debate on African, Asian, Latin American, and Middle Eastern approaches to democracy. In his fascinating accounts of ideas, thinkers, and political movements in those regions, Youngs reveals a great diversity of alternative democratic forms. Some edge toward illiberalism, upholding political competition but abridging individual rights. Others resemble social democracy, in which rights are defined in terms of group solidarity and social justice. Still others are little more than cloaks for authoritarian agendas. If democracy has a future, Youngs concludes, it will feature a great variety of participatory mechanisms and forms of community. But, he persuasively argues, any successful variation on the democratic theme will need to maintain a deep commitment to individual rights and limited government.

State Capitalism: How the Return of Statism Is Transforming the World
BY JOSHUA KURLANTZICK. Oxford University Press, 2016, 296 pp.

Kurlantzick argues that a new era of state capitalism has dawned. The authoritarian governments of China and Russia are the best-known practitioners of modern-day statism, but in this masterful survey, Kurlantzick shows that a shift toward state capitalism is also occurring in major democratic developing countries, such as Argentina, Brazil, India, and Indonesia, where governments have taken controlling ownership stakes in many of the largest companies. As Kurlantzick demonstrates, this new state capitalism, unlike older versions, is generally compatible with outward-looking trade and investment policies. It can also help developing countries access globalized sectors such as telecommunications, banking, and energy. Kurlantzick's analysis brings to mind Andrew Shonfield's *Modern Capitalism*, the classic 1965 account of a shifting balance between public and private control in the postwar economies of Europe and the United States. Then, as now, governments sought to maintain stability while also taking advantage of opportunities in a rapidly evolving global capitalist system. Kurlantzick, however, sees slightly more ominous possibilities today, emphasizing the risk that countries will increasingly turn away from market-oriented models, embrace protectionism, and restrict political freedoms.

Societies Under Siege: Exploring How International Economic Sanctions (Do Not) Work
BY LEE JONES. Oxford University Press, 2015, 224 pp.

Proponents of international sanctions regimes usually argue that by restricting economic interactions and thus creating popular discontent, sanctions can put pressure on governments to change their policies. But in closely examining the various ways in which sanctions affect the interests, resources, and strategies of different political groups, Jones finds that things don't always turn out that way. In South Africa in the 1980s, an internationally enforced embargo ultimately fragmented the ruling bloc and empowered progressive political and business groups that pushed for an end to apartheid. In Iraq during the 1990s, Jones argues, sanctions seriously weakened Saddam Hussein's ruling coalition, but his regime managed to hang on to power. In recent years in Myanmar (also known as Burma), sanctions actually strengthened the ruling bloc, at least for a time, as the regime found ways to push the costs onto nonstate groups. Given this mixed record, Jones finds it difficult to draw general conclusions. He speculates that countries with middle classes that enjoy some independence from the state are the mostly likely to respond to sanctions as intended. But Jones' central message is that enthusiasm for sanctions should be tempered by an appreciation of their complex, unpredictable, and sometimes counterproductive effects. Past performance is no guarantee of future results.

Connectography: Mapping the Future of Global Civilization
BY PARAG KHANNA. Random House, 2016, 496 pp.

Khanna is not shy about making bold claims, and his exploration of today's vast and expanding networks and pathways of transportation and communication leads him to declare that, in the future, "cities will matter more than states and supply chains will be a more important source of power than militaries." That seems like a stretch. Still, with an eye for vivid details, Khanna has nevertheless produced an engaging geopolitical travelogue, unearthing the Internet cables, energy pipelines, and electrical grids that link regions together more closely than ever before and allow people to lead increasingly connected lives. In his view, connectivity is transforming conflict between states into competition for access to the world's infrastructure of networks and markets. A world of nation-states, he argues, is becoming a world of nodes and transit hubs: a "global network civilization." And yet the actual stories of globalization in the book still revolve around big players such as China, India, Russia, the United States, and Europe. The influence of these traditional geopolitical powers might ebb and flow, but it is hardly disappearing. In that sense, the new, more connected world does not seem all that different from the old, less connected one.

The Seventh Sense: Power, Fortune, and Survival in the Age of Networks
BY JOSHUA COOPER RAMO. Little, Brown, 2016, 352 pp.

Some thinkers see history as constant or cyclical; others see it as evolutionary or directional. Ramo is in the latter camp, and his bold new book is an attempt to sketch the contours of the new "age of networks" he sees aborning. A few centuries ago, in his telling, the Enlightenment and the scientific revolution gave birth to the modern world, with its capitalism, democracy, global trade, and industrial power. Today, the spread of networks and constant, ever-faster connections is creating a new kind of order with new sources of strength. Power is both more concentrated and more distributed than ever before, traditional assets become irrelevant almost overnight, and all that is solid melts into air—or, rather, into pulses of information. Individuals, firms, and nations that can appreciate and master the new order will flourish; those that can't will flounder. Skeptics may find this all a bit overwrought and bewildering; Ramo would consider such responses the hallmark of those destined to be left behind.

GIDEON ROSE

Economic, Social, and Environmental

Richard N. Cooper

From the Other Side of the World: Extraordinary Entrepreneurs, Unlikely Places
BY ELMIRA BAYRASLI. PublicAffairs, 2015, 320 pp.

The core of this interesting book is a set of profiles of seven successful and innovative entrepreneurs, each one hailing from a different major country with an emerging economy. The

United States looms large in their stories: some of them had experience studying or working in the United States, others drew on U.S. venture capital, and most were inspired by successful American start-ups. Based on detailed interviews with the entrepreneurs and their colleagues, Bayrasli reveals significant institutional obstacles that stand in the way of starting and sustaining new businesses in emerging markets, even in countries that officially aspire to modernization, growth, and the creation of nonagricultural employment: politically supported barriers to entry, a shortage of skilled workers, licensing requirements that facilitate bribery—and, for those who don't play along with the unwritten rules, outright extortion and unjustified threats of criminal indictment. But the stories in this book demonstrate that talent and perseverance can overcome even those formidable roadblocks. Reducing the barriers might unleash astounding economic performance.

Global Inequality: A New Approach for the Age of Globalization
BY BRANKO MILANOVIC. Harvard University Press, 2016, 320 pp.

Milanovic, a former World Bank official and an authority on global inequality, attributes the recent rise of inequality within the United States and other countries to technological advancement and globalization, two trends that he argues are impossible to disentangle. But those trends have also produced a sharp decline in overall global inequality since 1980, by permitting rapid growth in poor countries, most notably China, which has helped narrow the gap between the world's haves and its have-nots. Milanovic expects that process to continue, unless China, India, and other populous Asian countries seriously falter. He believes that growing inequality within countries will not threaten capitalism as a system for allocating economic resources but will pose a serious threat to liberal democracy. As middle classes everywhere get squeezed, the United States will become even more plutocratic, and nativistic populism will become more mainstream in Europe—a process that is already under way, aided in no small part by the influx of migrants, a feature of globalization that is likely to only intensify.

Rich People, Poor Countries: The Rise of Emerging-Market Tycoons and Their Mega Firms
BY CAROLINE FREUND. Peterson Institute for International Economics, 2016, 200 pp.

The mass media are always happy to feed the public's appetite for details about how the rich and famous live. Much rarer is the kind of careful analysis of the sources and consequences of great wealth that Freund offers in this book. She relies on *Forbes*' annual list of billionaires and focuses on those who hail from developing countries. There were 705 developing-world billionaires in 2014, up from 102 in 2001. The vast majority of these ultrarich are self-made, rather than people who inherited their wealth. Most founded or managed new companies that grew rapidly in terms of sales and employment, thus contributing to the overall economic growth of the countries where they were established. But the emergence of billionaires has also contributed to the rise of income inequality in the countries of the developing world, which Freund views as a logical consequence of rapid economic growth and changing economic structures—even while, from a global point of view, inequality falls, as more and more people escape poverty or join the ranks of new middle classes.

Have Bacteria Won?
BY HUGH PENNINGTON. Polity, 2015, 168 pp.

High-profile pandemics and the spread of drug-resistant microbes have fueled fears about humanity's ability to contend with the scourge of viruses and bacteria. But Pennington answers the question posed by his title with a resounding no: the microbes have not "won." He warns, however, that it would be an error to conclude that they have lost. Humans have made astounding progress during the past century in bringing tiny parasites under control, but the war against them—to use a metaphor the author dislikes—will continue indefinitely, thanks to their collective resilience. Some outbreaks are genuine, but many alleged microbial emergencies are mostly ginned up by the media, which find it expedient to misreport and exaggerate bacterial or viral threats, sometimes out of ignorance, sometimes willfully. The book offers brief but informative discussions of recent real and not-so-real pandemics.

Beyond the Tragedy in Global Fisheries
BY D. G. WEBSTER. MIT Press, 2015, 488 pp.

Climate change, a relatively recent concern, dominates contemporary discussions of shared resources and "the tragedy of the commons." Webster's comprehensive, although somewhat jargony, book reminds readers of another tragedy—the overexploitation of ocean fisheries—and explores attempts to prevent or overcome it, a battle that people have waged for centuries. Every commercial fishing firm wants to catch as many fish as it can. But without restraints, fisheries ultimately collapse, particularly as fishing technology advances. Webster documents and evaluates conservation efforts, which sometimes succeed but mostly fail, usually owing to the political clout of major commercial fishing concerns looking out for their short-term economic interests. This track record does not set a happy precedent for attempts to limit global emissions of greenhouse gases.

Military, Scientific, and Technological

Lawrence D. Freedman

The Winter Fortress: The Epic Mission to Sabotage Hitler's Atomic Bomb
BY NEAL BASCOMB. Houghton Mifflin Harcourt, 2016, 400 pp.

At the heart of this book is the story of the heroic and successful efforts of a small group of Norwegian patriots who sabotaged a German-controlled hydroelectric plant in Vemork, Norway, in February 1943. At the time, the plant was the world's only source of heavy water, a component of the uranium enrichment process. This was not the first or last attempt to deny Germany access to heavy water. In this authoritative account, Bascomb also describes how a few months before, there had been a calamitous mission undertaken by British commandos, which failed when their gliders crash-landed far from their target; the Germans later executed the surviving soldiers. In November 1943, nine months after the Norwegians' successful mission, it became apparent that the Germans had started up production again, so the U.S. Army Air Forces bombed the plant. Finally, in 1944, there was a terminal act of sabotage, when two Norwegians sank a ferry carrying the last remaining containers of heavy water to Germany. Germany's equivalent to the Manhattan Project might well have failed on its own, without these efforts, but it would have been too risky to assume as much. Bascomb offers a vivid and gripping narrative that conveys the heroism and dedication of the anti-Nazi operatives, especially in the face of severe weather conditions, and also delves into the ethics of resistance, which sometimes involves implicating or even killing innocent people.

My Journey at the Nuclear Brink
BY WILLIAM J. PERRY. Stanford University Press, 2015, 276 pp.

The Case for U.S. Nuclear Weapons in the 21st Century
BY BRAD ROBERTS. Stanford University Press, 2015, 352 pp.

Our ability to survive the nuclear age for so long is an impressive achievement, but it is hard to avoid the nagging feeling that at some point humankind's luck will run out. Until nuclear weapons are somehow eliminated, we have little choice but to rely on deterrence and a taboo (of uncertain strength) against their use. Meanwhile, governments must make every effort to limit the number of nuclear-armed states, reduce the number of nuclear weapons that exist, and narrow the options for their use.

Perry has long been one of the more strenuous advocates for confronting the dangers of the nuclear age, and his engaging memoir explains why. As a young mathematician, Perry helped the CIA analyze intelligence on Soviet capabilities during the Cuban missile crisis. Later, working in the Pentagon during the Carter administration, he came to realize that it was conceivable for a false alarm to cause an inadvertent nuclear war. As President Bill Clinton's secretary of defense, he prioritized a program to help the Russians safely dismantle parts of the Soviet nuclear arsenal—and pushed for cuts to the U.S. stockpile as well. Not surprisingly, the recent deterioration in U.S.-Russian relations has left him anxious, and he calls on the nuclear powers to revive their efforts to reduce the risks of catastrophe.

Roberts, in his well-researched and carefully argued book, takes a different approach. Without denying the risks described by Perry, he worries that there are also dangers in neglecting the more immediate challenges of nuclear strategy. His primary concern is the possibility of a conflict between the United States and a country (or countries) that has more seriously considered how to employ nuclear weapons in a crisis, if only because it enjoys fewer conventional options than does Washington. After an excellent survey of post–Cold War U.S. nuclear policy, he zeroes in on North Korea, which is probably the scariest nuclear-armed state, and then looks closely at China and Russia. He concludes that the United States must start taking nuclear strategy seriously again and that doing so will require investing in new capabilities.

Blood Year: The Unraveling of Western Counterterrorism
BY DAVID KILCULLEN. Oxford University Press, 2016, 312 pp.

United States of Jihad: Investigating America's Homegrown Terrorists
BY PETER BERGEN. Crown, 2016, 400 pp.

These two books address very different sides of the same coin. Both are written by leading figures in the field: Kilcullen made his name as both a theorist and a practitioner of counterinsurgency, and Bergen has written extensively about radical Islamist groups. Kilcullen addresses the rise of the Islamic State (also known as ISIS), particularly in the Middle East, whereas Bergen concentrates on the phenomenon of Islamist radicalization inside the United States. Both subjects have taken on added urgency in the wake of recent events, notably the ISIS-related terrorist attacks last year in Paris and San Bernardino, California.

Kilcullen's book is a tour de force. With telling details and personal reminiscences, he seeks to make sense of how the U.S. counterinsurgency campaign in Iraq—which at one point got close to at least the appearance of success—ultimately fell apart. He blames the Bush administration for the original mess, President Barack Obama for prematurely ending the U.S. military role in Iraq, and Iraqi Prime Minister Nouri al-Maliki for indulging his most sectarian instincts. Mayhem in Syria allowed the Sunni extremists of ISIS to build a base of operations, from which they swept back into Iraq. They have been repelled to some extent, but Kilcullen's message is that matters could get worse; he warns against ever assuming that "this is as bad as it gets."

Bergen also focuses on Sunni extremism, telling the stories of young Americans who found meaning and inspiration in jihadist propaganda and decided to devote themselves to the cause. He examines the 330 individuals charged in the United States with a terrorism-related crime since the 9/11 attacks and notes that they were not a particularly alienated or deprived bunch. Some were converts (including one former Orthodox Jew). Their normality made them hard to detect. In some cases, social media skills enabled them to develop effective online propaganda, but most of their real-world plots failed. A number acquired some notoriety, particularly the cleric Anwar al-Awlaki, whom the United States killed in a 2011 drone strike in Yemen, and Nidal Hasan, the U.S. Army major who murdered 13 people at Fort Hood in 2009. Bergen describes the FBI's efforts to keep track of would-be jihadists, which have suffered from some awkward slip-ups and from the bureau's tendency to concoct fake plots and then encourage suspects to take part in them. Authorities must do all they can to prevent jihadist atrocities, but Bergen reminds readers that since the 9/11 attacks, an American's chances of being killed by an ordinary person with a gun have been 5,000 times as great as the risk of being killed by an Islamist terrorist.

The United States

Walter Russell Mead

The Civil Wars of Julia Ward Howe: A Biography
BY ELAINE SHOWALTER. Simon & Schuster, 2016, 320 pp.

Julia Ward Howe was born in 1819. Her father, Samuel Ward III, was one of New York City's most successful bankers, and young Julia was educated by some of the country's leading scholars. A beauty and an heiress, she fell in love with and married Samuel Howe, a charismatic American hero of the Greek War of Independence, progressive political activist, and internationally famous pioneer in the education of the blind. Her books of poetry were met with wide acclaim, and her husband stood by her even as she scandalized the American artistic community in Rome with her unconventional lifestyle and published thinly veiled poetic accounts of their marital troubles. Her poem "The Battle Hymn of the Republic" became one of the great anthems of the American Civil War and made her a national celebrity as she traveled the country advocating women's suffrage and other causes. Showalter casts Howe's story as a feminist struggle against patriarchal oppression. This seems a bit overdone: Howe had her frustrations, but few people of any gender have had as much scope for their talents or received as much applause for their accomplishments as this authentically gifted, but also quite privileged, American artist.

Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era
BY THOMAS C. LEONARD. Princeton University Press, 2016, 264 pp.

Those puzzled by the ease with which contemporary progressive political movements have turned against liberal values such as free speech will find much material for reflection in Leonard's lucid intellectual history of early twentieth-century progressivism. From the beginning, the Progressive movement saw itself as a rival of nineteenth-century liberalism, not simply in the sphere of economics (replacing laissez faire with a more regulated economy) but also in the arena of individual liberties and rights. The advances of the late nineteenth century had led many intellectuals to believe that educated experts could make better decisions than the uninformed could make for themselves. Progressives aimed at social, economic, and natural engineering on a vast scale. Immigration restrictions, prohibition, and forced sterilization of "undesirable" members of the gene pool would reshape the lower classes; meanwhile, economic regulation would maintain fairness by limiting the power of corporate trusts. Leonard's commendable book illuminates one phase in the centuries-long American struggle between the quest for liberal values and the impulse to build a godly commonwealth on the back of a strong state.

Exit Right: The People Who Left the Left and Reshaped the American Century
BY DANIEL OPPENHEIMER. Simon & Schuster, 2016, 416 pp.

Converts are often odd, and Oppenheimer's engaging study of six prominent left-wingers who wound up on the right illustrates the eccentricities that have made people such as Whittaker Chambers (Soviet sympathizer and spy turned anticommunist conservative), David Horowitz (Black Panther supporter turned right-wing crusader) and Christopher Hitchens (antiwar socialist turned Iraq war cheerleader) almost as irritating to their new associates as they were to their old ones. But the 70 years between Chambers' work with the Soviet spy apparatus and Hitchens' support for the Bush administration saw such profound changes in the structure of U.S. politics that Oppenheimer's attempt to place these six conversion stories in a common frame is less illuminating than one might hope. (The writer and critic Norman Podhoretz, the political theorist James Burnham, and Ronald Reagan are also included.) The left from which Chambers and Burnham seceded during the Cold War was an organized political force seeking a revolutionary transformation of American life. The left that Hitchens abandoned was less organized and less coherent. The difference between leaving the two was a bit like the difference between forsaking the Catholic Church and going home early from a dinner party. Podhoretz was the last to leave the Old Left, and Horowitz the first to leave the New Left; a closer focus on the similarities and differences between their experiences would have shed more light on the shifts in American political and intellectual life over the last generation.

The Unquiet Frontier: Rising Rivals, Vulnerable Allies, and the Crisis of American Power
BY JAKUB J. GRYGIEL AND A. WESS MITCHELL. Princeton University Press, 2016, 240 pp.

The Unquiet Frontier is a useful and thoughtful contribution to the most important debate in U.S. foreign policy and will be read with great care by President Barack Obama's supporters and critics alike. Grygiel and Mitchell make the case that the revisionist powers of China, Iran, and Russia have been probing the most exposed and vulnerable points in the United States' system of alliances and that the next U.S. president will face much more dangerous challenges unless he or she takes strong action to reassert American power. Supporters of the Obama administration's approach hope that a reasoned and conciliatory U.S. response will promote the emergence of a stable order that requires less U.S. effort to uphold. Grygiel and Mitchell counter that far from settling into a cooperative new order, those revisionist powers will choose escalation, requiring the United States to run greater risks and incur larger costs to defend the existing world system. At the moment, Obama's supporters are on the defensive; if the trend of rising instability persists through January 2017, expect the next U.S. administration to look long and hard at the ideas put forward in this book.

Mission Failure: America and the World in the Post–Cold War Era
BY MICHAEL MANDELBAUM.
Oxford University Press, 2016, 504 pp.

Mandelbaum's latest book offers a biting sketch of U.S. foreign policy during the Clinton, George W. Bush, and Obama administrations, skewering all three for their various mistakes. He argues that, bequeathed a rare gift of peace, prosperity, and relative international calm, the post–Cold War presidencies often wandered off into undisciplined adventures in humanitarianism and quixotic nation building, most of which turned out badly. Instead of squandering blood, treasure, and reputation on "foreign policy as social work" (as Mandelbaum put it in these pages two decades ago), Washington should have focused on other countries' external behavior, not their internal politics. Mandelbaum's blows hit their targets, as does his theoretical contention that the most important factor driving these policies was unprecedented relative power—the strong doing what they can once again, this time in a well-intentioned but clueless American mode. But since the author favors continuing "the American role as the chief custodian of the benign international order that . . . emerged from the end of the Cold War," it is not clear why the new era is truly distinctive, and the book would have benefited from less narration of familiar events and more discussion of the author's preferred courses of action.
GIDEON ROSE

Western Europe

Andrew Moravcsik

Scotland Now: A Warning to the World
BY TOM GALLAGHER. Scotview Publications, 2015, 356 pp.

The recent rise of Scottish nationalism has exposed the ideological contradictions of British conservatism. Among British Conservatives are Burkean nationalists who reject Scottish nationalism, Thatcherites who warn Scots not to trim their public sector, extremists who criticize the pro-independence Scottish National Party (for being extremist, naturally), and believers in "one nation" conservatism in theory who are dividing the United Kingdom in practice by striking a cozy electoral bargain with Scottish nationalists. In politics, when partisans contemplate such contradictions, they tend to fulminate, and Gallagher is no exception: his book is twice as long as it need be, not least because it is bloated with sarcastic asides, accusations of cynical motives, and the persistent use of quotation marks to indicate irony. Gallagher manages to see everything except the one thing he cannot: the central role the Conservative Party has played in leading so many modern Scots to despise being part of the United Kingdom. Yet he adds something to the conventional view of the Scottish issue as merely an unfortunate disagreement between two well-meaning groups, idealistic nationalists and sensible unionists. He highlights that even without the independence movement, Scotland is becoming a populist one-party state. Governments in such places, he rightly warns, tend to be insular, intolerant, interventionist, and corrupt.

Government Favoritism in Europe
EDITED BY ALINA MUNGIU-PIPPIDI. Budrich UniPress, 2015, 128 pp.

Public infrastructure projects and other types of government procurement almost everywhere in the world suffer from favoritism and corruption, if not outright criminality. The spoils always go to the people with the right connections, wealth, or the willingness to use or threaten violence. This is among the most difficult aspects of governance for scholars to study: those who talk don't know, and those who know don't talk. This slim volume summarizes detailed studies of favoritism in Bulgaria, Croatia, Hungary, Italy, Romania, Turkey, and Ukraine. A final chapter shows how criminal organizations in many countries—including Mafia-like groups in Bulgaria and Italy—infiltrate national and EU-level public spending projects. Each chapter is packed with a remarkably rich set of charts, graphs, and statistical analyses that capture how much corruption exists and how it works. These succinct and eye-opening quantitative estimates of what really goes on beneath the surface of government make for indispensable reading and should straighten out anyone who doubts that the powerful always find ways to reinforce their influence and wealth, even on the "cleanest" of continents.

Export Empire: German Soft Power in Southeastern Europe, 1890–1945
BY STEPHEN G. GROSS. Cambridge University Press, 2016, 398 pp.

From the British Empire a century ago to China today, powerful countries have often employed economic and cultural influence to bind smaller states in dependent relationships. Gross shows how German businessmen and academics in the Weimar and Nazi periods used development projects, trade fairs, scholarly research, and educational exchanges to help entrench Germany's role as the primary trade partner for many of its neighbors, establish itself as a development model, and fix its position atop central Europe's hierarchy of states. Gross stretches the terms "informal imperialism" and "soft power" to encompass this type of behavior, which immediately evokes images of Nazi imperialism. Yet his most telling conclusion is that Germany's informal influence during the interwar period had more in common with today's relations among the United States, European countries, and smaller states than with Adolf Hitler's military grasp for *Lebensraum* (living space) and a formal empire. In many ways, Hitler's counterproductive military expansion and ethnic cleansing reversed the interwar policy of mutually beneficial inducement and persuasion. This book offers an interesting historical perspective on the active trade and investment policies of great powers today.

Shadows of Revolution: Reflections on France, Past and Present
BY DAVID A. BELL. Oxford University Press, 2016, 456 pp.

Bell (who, like me, teaches at Princeton University) has emerged as a leading U.S.-based observer of France, the United States' oldest ally. This book contains more than 40 of his essays published over the past 25 years, covering everything from the French Revolution, Napoleon, and the Vichy government to contemporary politics and culture. Most of these essays are book reviews that engage authors in critical dialogues and that originally appeared in *The New Republic*, the *London Review of Books*, and other periodicals. But Bell is not a typical academic turned high-end journalist: he does not simply summarize books or briefly mention them as a springboard for a bit of reportage or op-ed writing. Instead, he seeks to stimulate serious debate about the past. For him, the test of a good argument is its fidelity to contextual details as historical actors actually perceived them. Although Bell writes well, his reviews do not always make for easy reading, given the complexity of his approach. Still, the book offers unusually rewarding insights into the past and the many ways it continues to influence contemporary France.

EU Leadership in Energy and Environmental Governance: Global and Local Challenges and Responses
EDITED BY JAKUB M. GODZIMIRSKI. Palgrave Macmillan, 2016, 229 pp.

No single area of internal EU regulation is more essential to Europe's global role today than energy policy. This is particularly true with regard to Russia. In recent years, EU officials in Brussels have become more active in regulating competition and funding infrastructure in the energy sector, with an eye toward limiting Russian leverage, which stems mostly from European countries' dependence on Russian natural gas. Meanwhile, individual EU member states have continued to adapt to evolving energy markets, with policies whose substance depends largely on the extent of their energy dependence and their financial means. These developments have had a decisive impact on diplomacy with Russia and the crisis in Ukraine: it is ultimately the EU that decides whether pipelines and connectors are built. The complex and conspiratorial world of energy politics is tough to research. Although more detailed and ambitious works on the subject exist, this volume of EU-funded research offers a useful introduction to some of the key data and perspectives.

Western Hemisphere

Richard Feinberg

Routledge Handbook of Latin America in the World
EDITED BY JORGE I. DOMÍNGUEZ AND ANA COVARRUBIAS. Routledge, 2014, 482 pp.

The foreign policies of Latin American states have been woefully understudied. This comprehensive collection of essays by senior international relations scholars is a magnificent corrective to that shameful lacuna. The contributors place their analyses within familiar theoretical frameworks, dive deeply into empirical evidence, and keep their essays—30 in all—lucid and succinct. The collection covers the foreign policies of every major Latin American country; regional multilateralism and economic integration schemes; and issues such as human rights, counternarcotics, global environmental governance, and migration. Oddly, there is only one brief (although solid) essay on U.S. foreign policy even though many of the contributions contemplate Latin American efforts to restrain U.S. power. Alas, the pace of change in the region is so fast that the enthusiasm some of the authors demonstrate for assertive left-leaning governments that seek autonomy from U.S. influence is already a bit behind the curve, as Argentina turns toward economic pragmatism, Cuba's Raúl Castro embraces U.S. President Barack Obama, and Venezuela flounders. Nevertheless, this authoritative handbook should be enthusiastically received by anyone searching for high-quality material on Latin America's role in the contemporary world.

A Fragmented Continent: Latin America and the Global Politics of Climate Change
BY GUY EDWARDS AND J. TIMMONS ROBERTS. MIT Press, 2015, 304 pp.

American Crossings: Border Politics in the Western Hemisphere
EDITED BY MAIAH JASKOSKI, ARTURO C. SOTOMAYOR, AND HAROLD A. TRINKUNAS. Johns Hopkins University Press, 2015, 248 pp.

Taken together, these two books help reveal a paradox of Latin America: although its governments disagree sharply on many things, the region enjoys low levels of interstate violence. *A Fragmented Continent* expertly explores one issue that produces sharply divergent attitudes: climate change. *American Crossings* intelligently considers why Latin America is a region substantially at peace with itself.

Latin American nations' positions on climate change have been all over the map, from urging international cooperation and advocating the adoption of quantitative targets to refusing to work with rich nations unless they agree to cover the costs of mitigation. Edwards and Roberts explain these differences among countries by pointing to four factors: diverse resource endowments, competing economic development models, distinct foreign policies, and ineffectual civil society organizations, including those focused on climate change. The preface, by Ricardo Lagos, a former president of Chile, suggests a fifth factor: varying quality of national leadership. At the country level, however, *A Fragmented Continent* does find some valuable initiatives: Costa Rica has led the way on carbon neutrality, cities in Brazil and Colombia boast sustainable transportation systems, and Cuba is an exemplar of hurricane preparedness.

The editors of *American Crossings* celebrate the region's progress, from the nineteenth-century practice of conflict resolution through war to the current approach of settling disputes through bilateral negotiations, confidence-building measures, and international judicial arbitration. Impressively, Latin America boasts a higher incidence of territorial arbitration processes than any other region in the world. Governments still saber-rattle over border claims, but they stop short of war: diplomacy has become the preferred policy option, in part because Latin American militaries are too poorly financed to sustain combat for very long. Notably, some democratic governments have purposefully defused border conflicts in order to reduce the political power of their militaries and enhance the influence of elected civilians. Inevitably, there is a downside: under-resourced borders create openings for the illicit trafficking of goods and people. But the editors warn against a fortress strategy, which would risk reigniting interstate tensions, and argue that collaborative border management will yield better results.

Nicaragua and the Politics of Utopia: Development and Culture in the Modern State
BY DANIEL CHÁVEZ. Vanderbilt University Press, 2015, 376 pp.

Faith and Joy: Memoirs of a Revolutionary Priest
BY FERNANDO CARDENAL. EDITED AND TRANSLATED BY KATHLEEN McBRIDE AND MARK LESTER. Orbis Books, 2015, 288 pp.

For a small country, Nicaragua has produced a remarkable literary and poetic tradition, one steeped in utopian politics. As the country's most famous poet, Rubén Darío, famously remarked, "If small is the homeland, one dreams it great." In his highly original book, Chávez seeks the literary and philosophical roots of three very different Nicaraguan regimes: the modernizing, authoritarian Somoza dictatorship (1937–79), the agrarian-socialist Sandinista revolution (1979–90), and the neoliberal capitalism of the post-Sandinista era (1990–2006). All three regimes were "utopian" in that their legitimizing rhetoric and imagery contained contradictory elements that were impossible to reconcile or fully realize and that obscured their less savory characteristics. Chávez carefully dissects official speeches and constitutional texts and expertly elucidates their literary and discursive origins. His critiques of two outstanding contemporary writers, Sergio Ramírez and Gioconda Belli, are especially well drawn, as he guides readers from their early anti-Somoza mythological stories and poems to their subsequent writings on political disillusionment. But Chávez is no cynic: on the contrary, he asserts that the drive to imagine a better, more hopeful future is profoundly and gloriously human.

An outstanding example of Chávez's kind of utopian is Cardenal, a Jesuit priest who joined in the Sandinista insurrection and later served as minister of education. (Cardenal's older brother, Ernesto, is a well-known poet and the founder of a legendary religious commune in Solentiname.) In his memoir, a longer version of which was published in Spanish in 2009, Cardenal explains that his support for the 1979 revolution against Somoza was rooted in his conviction that abject poverty had resulted from repression and injustice (and not from low labor productivity or incompetent governance). He believed that Nicaragua's problems could best be addressed by faith in Jesus Christ and love for the poor. Under the circumstances of the brutal Somoza dictatorship, violent revolution was justifiable, Cardenal argues, but never terrorism, understood as violence against civilians for political ends. After the Sandinistas lost the 1990 elections, Cardenal withdrew into religious life but retained his faith in utopia. He had witnessed the generous energy and self-sacrifice of young Nicaraguans fighting the dictatorship and working for social transformation—examples, in Cardenal's mind, of a form of Christianity grounded not just in the catechism but also in lived experience.

The Versailles Restaurant Cookbook
BY ANA QUINCOCES AND NICOLE VALLS. University Press of Florida, 2014, 192 pp.

To understand the influence of political strife on the recipes and ingredients in people's ever-changing dining habits, academics now study "conflict cuisine." Founded by Cuban immigrants in 1971 in Miami's Little Havana neighborhood, the restaurant Versailles embodied conflict cuisine before the term became trendy. Like its namesake, Versailles is an elegant icon of an upended ancien régime, mixing nostalgia for a lost homeland with kitsch decor that recalls a style of 1950s Miami. For decades, Cuban Americans have gathered at the restaurant to plot their revenge against the man who stole their birthrights, Fidel Castro. No *paladar* (privately owned restaurant) in Cuba can match Versailles' seating capacity of 400, as the Cuban government places a tight limit of 50 chairs on such establishments. Versailles is also an obligatory stop for politicians courting the Cuban American vote. Quincoces and Valls recognize that Cuban fare, rooted in Spanish traditions, is relatively simple, and the accessible recipes they offer cover all the basics: classic sofrito marinade (garlic, onion, tomato, bell peppers), *ropa vieja* (shredded flank steak), black beans and rice, a rich flan, and strong Cuban coffee. The light, informative text considers, among other things, the fiery debates over the true origins and proper contents of the Cuban sandwich, which typically includes some combination of roast pork, ham, Swiss cheese, pickles, and mustard.

Eastern Europe and Former Soviet Republics

Robert Legvold

The Red Web: The Struggle Between Russia's Digital Dictators and the New Online Revolutionaries
BY ANDREI SOLDATOV AND IRINA BOROGAN. PublicAffairs, 2015, 384 pp.

This could have been a narrowly told story of how the Internet came to Russia and now pervades the lives of most of its citizens. Instead, although the authors do trace the jury-rigged early Russian connections to the Web in the late 1980s, they tell a much broader tale. They delve into the Kremlin's efforts to commandeer this new medium, the interplay between state-controlled media and the more freewheeling Internet, and the ingenuity of the young paladins who have kept information flowing over the Internet despite the best efforts of Russia's security services. The authorities now eavesdrop on virtually every form of communication in the country, from e-mail to Skype. But the Kremlin has been unable to bring the Internet to heel and ensure that only the regime's views proliferate. Soldatov and Borogan, two young journalists, dogged and nervy, are detectives, tracking down the players on all sides. They weave the results into something close to a high-tech adventure.

Beyond Crimea: The New Russian Empire
BY AGNIA GRIGAS. Yale University Press, 2016, 352 pp.

Scarcely any aspect of Russian foreign policy has received more attention and less serious exploration than Russia's maneuvering in former parts of the Soviet Union. Grigas takes a sizable step toward rectifying that imbalance by carefully tracing Moscow's approach to so-called compatriots—ethnic Russians, Russian speakers, and those who simply identify with Russia—in these now independent states. Russian foreign policy is a Rorschach test, and Grigas' interpretation will satisfy many—but not all. Grigas details how Russia uses hard power, soft power, and something in between: for example, bestowing Russian passports on compatriots who are citizens of other countries. Her purpose is to prove that Russia is trying to reconstitute an empire, drawing its identity and motivations from a script that traces back to the sixteenth century. Russia, she argues, begins its interventions in its neighbors' affairs by making claims on behalf of allegedly threatened compatriots and then, step by step, resorts to cruder mechanisms. Finally, if conditions permit, Russia turns to subversion and military force, as it did in Georgia in 2008 and Ukraine in 2014.

Velvet Revolutions: An Oral History of Czech Society
BY MIROSLAV VANEK AND PAVEL MUCKE. Oxford University Press, 2016, 264 pp.

Vanek and Mucke are Czech oral historians who have applied their craft to reveal how 300 Czechs from all walks of life—factory workers, teachers, electricians, doctors, soldiers—remember the communist era of their youth: their schools, workplaces, and friendships, as well as the political norms and hazards that shaped and abraded their lives. Their memories of what preceded 1989—"the crack," as many people refer to the collapse of socialism—are mixed and human, full of simple pleasures: evenings at the pub, good and bad teachers, holidays, and the rhythms of the workday. They appreciate the new freedoms they now have—if they can afford them. But they frown on the anomie, materialism, self-absorption, and inequities of the postcommunist era and resent those who have found ways to game the new system. The striking thing is that notwithstanding the fundamental differences between the political system in which they spent most of their lives and that of the United States, their outlook on the past and the present appears not all that different from that of Americans of the same generation.

The Depths of Russia: Oil, Power, and Culture After Socialism
BY DOUGLAS ROGERS. Cornell University Press, 2015, 394 pp.

Rogers, an anthropologist, is not as interested as most observers in how money, power, and politics mix in Russia and echo in its foreign policy. Rather, he focuses on how things work within oil corporations: how the new oil giants evolved out of Soviet carcasses; how they operate in symbiosis with the state; and, in particular, how they directly shape social and cultural institutions. He zeroes in on a single region, Perm, which drove the Soviet Union's first oil boom, from 1929 until the 1970s; a single company, Lukoil, which inherited parts of the Soviet conglomerates, including a vast refining operation; and one key sphere of the subsidiary Lukoil-Perm's social activity, the promotion of local cultural traditions. The intersection of oil, money, and power might be a sexier topic. But the ways in which politicians and corporate bosses redefine and blend roles on the ground—indeed, to the point that Lukoil-Perm assumed the lead in a grand campaign to make the city of Perm a "capital of culture," competing with St. Petersburg—provide more insight into the real texture of everyday politics.

On Stalin's Team: The Years of Living Dangerously in Soviet Politics
BY SHEILA FITZPATRICK. Princeton University Press, 2015, 384 pp.

It might seem strange to describe a book about Joseph Stalin and his entourage as a sheer pleasure, but that's what Fitzpatrick's book is. Simple, honest, and direct, but subtle in tone, it manages to convey what was human and complex about something stark and inhuman. Fitzpatrick reconstructs the relations among Stalin and the small circle of lieutenants who remained close to him—and, with varying intensity, to one another—over a remarkable 30 years. These men were not merely rubber stamps for a dictator's autocratic decisions; they exerted force within the spheres of their responsibility. (Stalin, of course, always had the last word.) In the early days of the Soviet era, they were buoyant with revolutionary energy. Later, they were driven apart during the Great Purge in the late 1930s, reenergized by World War II, and ultimately able to hold the Soviet system together after Stalin's death in 1953. All remained loyal to Stalin until the very end, even when subjected to his wrath, and they all genuinely believed that he had merits far greater than theirs. One comes away from this book with a far better sense of what it must have been like within the inner sanctum as it went about its business: sometimes heroic, all too often monstrous.

The New Tsar: The Rise and Reign of Vladimir Putin
BY STEVEN LEE MYERS. Knopf, 2015, 592 pp.

What is it about Vladimir Putin that makes people want to write books about him—many more, it seems, than about any other currently serving leader or, indeed, any recent leader? Most of the authors of these books are journalists such as Myers; Russia seems to get into their blood, and Putin, an improbably striking character, is at the center of the country's turbulent existence and effect. Myers retraces familiar ground: Putin's childhood, KGB service in East Germany, entry into Leningrad politics, ascent in Moscow, and consolidation of power, and the various twists and dramas of his time in power, including the ongoing Ukrainian conflict. What Myers adds to this oft-told tale are revealing details, texture, and nuance made possible by the seven years he spent reporting from Russia for *The New York Times*. For readers looking for a full, highly readable account of Putin and the era he has shaped, this is the book.

Return to Cold War
BY ROBERT LEGVOLD. Polity, 2016, 208 pp.

Since the onset of the Ukrainian crisis, experts have debated how to characterize the latest phase of U.S.-Russian relations, now at their lowest ebb since before the Soviet leader Mikhail Gorbachev came to power. In his timely new book, Legvold argues convincingly that Washington and Moscow have entered a second Cold War, which could become even more dangerous than the first one, owing to an unstable global environment and new challenges such as cyberwarfare and terrorism. He suggests that instead of ostracizing the Russians, the Americans should acknowledge their own role in the deterioration of relations and should take steps to reengage with the Kremlin. He offers a number of concrete suggestions for how the two countries could find ways to cooperate on matters including Euro-Atlantic security arrangements and defusing tensions in Northeast Asia. The conflict over Ukraine will remain a sore spot, he acknowledges, but it could be resolved if other aspects of the relationship improved. Legvold's call for U.S. reengagement raises serious questions about Russia's willingness to respond, and on what terms. Confrontation with the West has become a fundamental tool for legitimizing the Kremlin's rule. It's not clear under what circumstances that could change.

ANGELA STENT

Middle East

John Waterbury

Engineers of Jihad: The Curious Connection Between Violent Extremism and Education
BY DIEGO GAMBETTA AND STEFFEN HERTOG. Princeton University Press, 2016, 208 pp.

Beware engineers! In their examination of individuals involved in violent extremism of all kinds, Gambetta and Hertog find engineers to be massively overrepresented in right-wing movements, both secular and religious. Not all engineers are violent extremists, of course, but an astonishing proportion of right-wing (but not leftist) extremists are engineers. The authors hypothesize that engineering attracts individuals who yearn for order, social "purity," and some mythical halcyon days of yore. The argument is not watertight, but it is data-driven and carefully constructed. Gambetta and Hertog take a close look at jihadist engineers, many of whom started promising mainstream careers in the 1950s and 1960s. At that time, they were hailed as the future leaders of newly independent states in the Muslim world, but in the 1980s, they crashed against a wall of failing economies, cronyism, and corruption. Some of them went on to become the architects of utopian Islamist movements and demonstrated no qualms about using violence. Although engineers belong to both violent and nonviolent Islamist movements, they seem particularly drawn to the violent variety.

A Rage for Order: The Middle East in Turmoil, From Tahrir Square to ISIS
BY ROBERT F. WORTH. Farrar, Straus and Giroux, 2016, 272 pp.

As the Beirut bureau chief for *The New York Times*, Worth has seen a lot, and he writes compellingly about the dashed hopes and personal tragedies that followed the 2011 uprisings in Egypt, Libya, Syria, and Yemen. He introduces readers to people such as Mohamed Beltagy, a relatively young Muslim Brotherhood leader in Egypt who tried to steer the group toward compromise following its electoral victories in 2012. Beltagy wound up in jail, sentenced to death; a sniper killed his teenage daughter. In Jableh, Syria, Worth meets two teenage girls—a Sunni and an Alawite—whose friendship is ruined by sectarian identities that had meant little to them before 2011. In Yemen, Worth watches as the despot Ali Abdullah Saleh, who had been driven from power in 2011, reemerges to join forces with Shiite Houthi rebels. These stories don't quite add up to a bigger picture, but they all revolve around Arabs' quest for a state that is fair and free of corruption and that treats its people as citizens. Worth avers that support for the Islamic State (also known as ISIS) may represent a perverse version of that quest.

Until We Are Free: My Fight for Human Rights in Iran
BY SHIRIN EBADI. Random House, 2016, 304 pp.

In 1975, Ebadi became the first-ever female judge in Iran. But after the Iranian Revolution, the new theocratic authorities stripped her of her position, claiming that Islam forbids women to serve as judges. Nevertheless, she was still allowed to practice law, so she founded the Defenders of Human Rights Center and represented abused women, journalists, activists, religious minorities, and many other targets of the regime's brutality and victims of Iran's corrupt legal system. In 2003, she was awarded the Nobel Peace Prize, which enraged the regime. For years, she was hounded by intelligence agents, and her clients, relatives, and, ultimately, husband were routinely bullied and threatened. In 2009, she went into exile, where she remains. In this disturbing memoir, Ebadi skims over what may be a fundamental divide in Iranian society, one that separates the elite classes, from which she hails, from the lower-middle classes, which produced most of her adversaries. She has no doubt that a substantial majority of Iranians want to see the back of the regime. Nevertheless, she is not optimistic about the prospects for reform under Iran's current president, the relatively moderate Hassan Rouhani, although she hopes that he might relax some strictures on public debate.

The Pragmatic Superpower: Winning the Cold War in the Middle East
BY RAY TAKEYH AND STEVEN SIMON. Norton, 2016, 416 pp.

Takeyh and Simon survey ten episodes—including the 1953 coup in Iran, the 1956 Suez crisis, the 1967 Six-Day War, the 1979 Iranian Revolution, and the 1990 Iraqi invasion of Kuwait—to make the case that U.S. strategy in the Middle East during the Cold War was remarkably successful. This is familiar terrain, and the authors do not introduce any significant new information, so their argument depends a great deal on interpretation. Throughout the Cold War, Washington protected oil markets, denied the Soviets increased access to the Arab world, and safeguarded Israel. But it is hard to discern an articulated U.S. strategy behind those goals. American officials rarely anticipated the moves of other key actors but rather lurched from one unanticipated crisis to another with reactive and improvised policies. The results were surprisingly good, given the disarray. Readers may conclude that matters could have been a lot worse—except, perhaps, when it came to the Israeli-Palestinian conflict.

The Saudi Kingdom: Between the Jihadi Hammer and the Iranian Anvil
BY ALI AL SHIHABI. Markus Wiener, 2015, 218 pp.

Although not a member of the Saudi royal family, Shihabi is a Western-educated Saudi businessman committed to the survival of the House of Saud. In this forcefully argued book, he portrays the monarchy's potential downfall as an unmitigated disaster that would lead to the collapse of the smaller Gulf Cooperation Council (GCC) states and that would create a void that could be filled only by jihadists or Iran. He is highly critical of the sprawling network of princes and Wahhabi clergy on the state dole, and he argues that Islamism is mostly a vessel for class antagonism. He calls for the state to embrace some reforms—budget transparency, a sharp reduction in the size of royal patronage networks, and fewer restrictions on debate—and he hopes that King Salman will lead the way. Shihabi sees little reason to believe that the nuclear deal that world powers reached with Iran last year will change the Islamic Republic's disruptive behavior in the Middle East, and he calls for the GCC to admit Yemen, with its 25 million people, which would nearly double the council's population and make the GCC a more credible counterweight to Iran.

Asia and Pacific

Andrew J. Nathan

China's Hidden Children: Abandonment, Adoption, and the Human Costs of the One-Child Policy
BY KAY ANN JOHNSON. University of Chicago Press, 2016, 224 pp.

Johnson, an adoptive parent, set out to understand the circumstances that produced so many abandoned baby girls in China in the 1980s and 1990s—more than 120,000 of whom were adopted overseas, mostly by people in the United States. She confirms the conventional view that some rural parents abandoned girls under the pressure of China's coercive one-child policy. But she explodes the myth that Chinese parents do not value girls. It turns out that many illegal second children were kept hidden by their birth families at the risk of being punished by local authorities, and many other babies were informally adopted, also at great risk, by families who already had a boy and wanted a girl. Local officials "confiscated" such children when they found them, swelling orphanage populations and feeding the revenue-producing international adoption market. The recent gradual loosening of the one-child policy does not change the fact that "out of plan" children may be seized from loving birth or foster parents, inflicting enduring pain on both generations. Johnson's extraordinary book conveys the intense suffering of ordinary people struggling to build families against the will of an implacable bureaucracy.

Japan: The Precarious Future
EDITED BY FRANK BALDWIN AND ANNE ALLISON. New York University Press, 2015, 384 pp.

This collection of lucid essays by leading experts takes stock of Japan's many problems: extreme susceptibility to natural disasters, an aging society, the decline in permanent employment, a lack of women in the work force, excessive limits on immigration, a paralyzed energy policy in the wake of the 2011 Fukushima nuclear disaster, a weak manufacturing sector, high government debt, and the rapid turnover of political leaders. All of that adds up to a fairly grim portrait. Only two chapters are moderately optimistic, noting Japan's technological lead over China and the political system's ability to gradually generate a stronger security posture in response to Chinese assertiveness, despite frequent changes of administration. Japan is still a formidable force in the global economy and in regional politics. Yet solutions to its problems seem to be blocked by a combination of cultural preferences and vested interests.

Pyongyang Republic: North Korea's Capital of Human Rights Denial
BY ROBERT COLLINS. Committee for Human Rights in North Korea, 2016, 177 pp.

The survival of the North Korean regime depends partly on the way it distributes material privileges in a series of rings around a dynastic core. Around 200,000 high-level elites live in central Pyongyang in nearly First World conditions. They must continuously demonstrate absolute loyalty to the ruling Kim dynasty or suffer instant banishment to a labor camp. Midlevel officials are trusted even less, live farther out, and contend with some hunger and cold. In the next ring resides what Collins describes as a "lesser elite," whose members are grateful for the limited access they enjoy to food, housing, health care, running water, electricity, and heating, because they know about the extreme deprivation suffered by the 85 percent of the population that is not allowed to live in the capital city. Collins describes the system in fascinating detail and identifies two dozen key regime figures who would be prime candidates for U.S. sanctions or international criminal prosecutions if the regime were ever called to account for its human rights violations.

The U.S.-China Military Scorecard: Forces, Geography, and the Evolving Balance of Power, 1996–2017
BY ERIC HEGINBOTHAM, MICHAEL NIXON, FORREST E. MORGAN, JACOB L. HEIM, JEFF HAGEN, SHENG LI, JEFFREY ENGSTROM, MARTIN C. LIBICKI, PAUL DELUCA, DAVID A. SHLAPAK, DAVID R. FRELINGER, BURGESS LAIRD, KYLE BRADY, AND LYLE J. MORRIS. RAND Corporation, 2015, 389 pp.

Heginbotham and his colleagues synthesize a great deal of information that is otherwise hard to find and understand. They develop detailed, rigorously reasoned scorecards that assess how Chinese and U.S. forces would perform against each other in a confrontation over Taiwan or the Spratly Islands. They consider each side's likely ability to cripple its adversary's air bases, sink its surface ships, blind its space satellites, shoot down its fighter planes, and disable its computer networks. The results are not surprising, but they are alarming for Washington: U.S. dominance is a "receding frontier," although the gap between Chinese and American abilities varies from scorecard to scorecard. The fact that the United States is far away from the potential battlefields protects the homeland but gives China an advantage in sustaining military operations, especially in the Taiwan scenario. The RAND scholars make a number of controversial recommendations, among them that Washington needs to reconsider the positioning of U.S. military bases in Asia, which are heavily concentrated within Chinese missile range in Japan and South Korea; invest more in cruise missiles that could disable Chinese airfields; and develop smaller aircraft carriers that are less vulnerable to Chinese submarine and missile attacks.

PLA Influence on China's National Security Policymaking
EDITED BY PHILLIP C. SAUNDERS AND ANDREW SCOBELL. Stanford University Press, 2015, 360 pp.

Saunders and Scobell have assembled leading authorities on civil-military relations in China, a subject of great importance for U.S.-Chinese relations and East Asian security. This highly informative volume covers, among other things, the role of China's military in formal policymaking institutions and specifically in Chinese policy toward North Korea and Taiwan and in the South China Sea. Taken together, the essays suggest that the People's Liberation Army's interests and perspectives differ from those of other sectors of China's foreign policy apparatus and reflect the military's responsibility to defend the country's security and territorial integrity. Nonetheless, it seems clear that the Chinese Communist Party retains firm control over the military, including when it comes to weapons procurement and the use of force. The absence of an effective Chinese interagency policymaking system grants the PLA privileged access to civilian elites, especially on intelligence matters, which means the military could have significant influence on Chinese decision-making during a crisis. The essays in this volume also suggest that the lack of institutionalized interagency foreign policy coordination enables the Chinese military to conduct provocative maritime operations in distant waters, which might undermine Chinese diplomacy and contribute to international tensions.

ROBERT ROSS

Regulating the Visible Hand? The Institutional Implications of Chinese State Capitalism
EDITED BY BENJAMIN L. LIEBMAN AND CURTIS J. MILHAUPT. Oxford University Press, 2015, 480 pp.

Many China observers lament the increasing dominance of the state sector in the Chinese economy, which distorts markets and breeds corruption. Analysts frequently suggest remedies such as privatizing more state enterprises and taking steps to level the playing field so that private businesses can better compete with state-owned firms. Liebman, Milhaupt, and their collaborators demonstrate in rich detail that the reality is more complicated and that such reforms would change little. Chinese state capitalism is rooted in institutions that permeate the economy and society. The Chinese Communist Party controls companies not only through ownership but also through its influence over employees who are party members. Courts favor state-owned enterprises, talented graduates aim for careers in state-dominated sectors, and private enterprises rely on favors from the government to survive. The Chinese brand of state capitalism is distinct from other versions owing to China's Leninist-style party-state and the lack of genuine rule of law, which have left China ill prepared for the new challenges of global economic volatility. Chinese state capitalism cannot be undone through isolated reforms; what's needed is a reform of the state itself.

HO-FUNG HUNG

The Most Wanted Man in China: My Journey From Scientist to Enemy of the State
BY FANG LIZHI. TRANSLATED BY PERRY LINK. Henry Holt, 2016, 352 pp.

Fang's memoir is a bildungsroman of dissent, a story of the political education of a Chinese scientist: his youth as a loyal Communist in the early 1950s, his gradual disillusionment with the revolutionary state, his efforts to reform it, and finally his expulsion from China in 1990, after which he taught astrophysics at the University of Arizona until his death in 2012. Fang's engaging narrative and careful analysis have been lucidly translated by Link. The book reveals how the Chinese Communist Party ruined itself and squandered its resources in the first four decades after it took power in 1949. The mind of the physicist is at work here: Fang describes the forces of political entropy and examines how people found ways to build a humane order in spite of political repression. The text is full of gems for specialists in Chinese politics and history, but it is also important as the testament of an important Chinese political dissident who arrived at liberalism not through Thomas Jefferson and political theory but through Albert Einstein and astrophysics, all while living through Mao Zedong's revolutions. If ever there was a case for a link between science and democracy, this is it.

TIMOTHY CHEEK

Africa

Nicolas van de Walle

The Real Politics of the Horn of Africa: Money, War, and the Business of Power
BY ALEX DE WAAL. Polity, 2015, 220 pp.

This excellent introduction to the recent history of the Horn of Africa focuses on the Machiavellian maneuvering of the region's elites. A well-connected, veteran observer of the region, de Waal is perfectly placed to untangle the domestic politics of Eritrea, Ethiopia, Somalia, and the Sudans. He argues that politics in the region operates much like a market, with constant intrigue over the buying and selling of power and influence. This is a familiar analysis, but de Waal applies it well in explaining why the countries of the Horn have proved politically unstable in recent decades. Without the support of powerful organizations or mobilizing ideologies to back them, political entrepreneurs survive only if they can secure material resources and receive funding from external patrons, which they use to purchase political support—a recipe for instability. This book's greatest strength is its regional lens, as de Waal reveals how elite alliances operate across borders. For a desperately poor area with awful infrastructure and vast expanses of desert, the Horn has produced a surprisingly globalized and cosmopolitan political ecosystem.

The Bad-Ass Librarians of Timbuktu
BY JOSHUA HAMMER. Simon & Schuster, 2016, 288 pp.

In 2012, Islamist extremists linked to al Qaeda managed to take control of a large swath of northern Mali, on the lower edges of the Sahara Desert, before the French military eventually dislodged them, with U.S. support. Hammer tells the dramatic story of how, during the period of Islamist rule, a group of Timbuktu residents saved some 350,000 ancient manuscripts that had resided in the city since its medieval heyday as a great center of learning and scholarship. Hammer's hero is a scholar and book collector, Abdel Kader Haidara, who has devoted his life to preserving these texts with the help of a network of prominent families in Timbuktu and, increasingly, international financial support. Rightly worried that the Islamists would consider this remarkable collection of works to be heretical and would therefore destroy it, Haidara and his colleagues organized a remarkably courageous and ingenious effort to smuggle them out of the city and on to safety in Bamako. In addition to weaving a great yarn, Hammer also provides a fascinating history of Timbuktu and its books and a well-informed account of the struggle against Islamist extremism in the Sahel.

Making and Unmaking Nations: War, Leadership, and Genocide in Modern Africa
BY SCOTT STRAUS. Cornell University Press, 2015, 400 pp.

From War to Genocide: Criminal Politics in Rwanda, 1990–1994
BY ANDRÉ GUICHAOUA. TRANSLATED BY DON E. WEBSTER. University of Wisconsin Press, 2015, 476 pp.

Straus' previous book was a penetrating analysis of the 1994 genocide in Rwanda. Here, he returns to the issue of large-scale ethnic violence in Africa, demonstrating an impressive command of the historical material to contrast the cases of Rwanda and Sudan, where genocides took place, with three cases in which ethnic conflict did not reach that point (Côte d'Ivoire, Mali, and Senegal). In the end, he concludes, whether interethnic strife results in genocide depends almost entirely on national leadership. Straus argues that African genocides occur during civil wars when governing elites prove willing and able to mobilize the majority of the population and the state apparatus to commit systematic violence against an ethnic minority. That is what happened in Rwanda and Sudan; in the other three countries, leaders instead embraced a pluralistic nationalism that made space for ethnic minorities and sought to end their civil wars through negotiation.

Readers left unsatisfied by Straus' relatively short chapter on the Rwandan civil war and genocide should turn to Guichaoua's magisterial account. Guichaoua shares Straus' view that the genocide was not premeditated or even preplanned by Hutu extremists but rather evolved from the chaos and violence of the civil war. Through a careful reconstruction of events, and with great attention to the actions of both domestic and international actors, Guichaoua makes a compelling case that the scaling up of violence to genocidal levels was progressive and tied at least in part to the escalation of the civil war and the timid and ineffectual international response to the initial violence. A profound implication of this revisionist history is that individual decisions on the part of both Rwandans and outsiders could have prevented the genocide even weeks after the onset of ethnic-based mass killing.

Made in Africa: Learning to Compete in Industry
BY CAROL NEWMAN, JOHN PAGE, JOHN RAND, ABEBE SHIMELES, MANS SODERBOM, AND FINN TARP. Brookings Institution Press, 2016, 306 pp.

Based on eight case studies of countries in sub-Saharan African, this book argues for a renewed emphasis on industrial development in Africa. The authors start with the premise that the industrial sector is the key to rapid and sustained economic development in the region. They believe that Africa's industrial performance has been marred by poor policies that have undermined productivity and suggest that better results will require investment in export-oriented industries, from which rapidly developing Asian countries are beginning to divest. Through careful firm-level analysis, the authors conclude that the single most important factor is the need to create more competition. Their policy recommendations include some familiar measures, such as improving infrastructure and embracing regulatory reforms to increase foreign direct investment. More interesting is their proposal to promote the development of "firm clusters"—hubs where companies with complementary skills can learn from one another.

Letters to the Editor

WE ARE ALL GEOECONOMISTS NOW

To the Editor:

Robert Blackwill and Jennifer Harris ("The Lost Art of Economic Statecraft," March/April 2016) argue that the United States no longer uses economic instruments to accomplish geopolitical objectives. Nothing could be further from the truth. In fact, most major U.S. international economic initiatives from World War II until today were undertaken primarily for foreign policy reasons.

In 1993, for example, U.S. President Bill Clinton signed the North American Free Trade Agreement mainly to prevent Mexico from becoming a failed state; as former U.S. Representative Bill Frenzel told me in 2007, General Colin Powell, who served as the chairman of the Joint Chiefs of Staff during the first Clinton administration, had argued that rejecting the bill might make it necessary for one of his successors to put five U.S. divisions on the U.S.-Mexican border.

The U.S. government supported China's admission to the World Trade Organization, which was finalized in 2001, in part because it believed that China's integration into the world economy would reduce the risk of geopolitical conflict.

The administration of U.S. President Barack Obama negotiated the Trans-Pacific Partnership, the most important trade agreement in U.S. history, to "avoid ced[ing] the [Asia-Pacific] region to China," in the words of Lee Kuan Yew, the former prime minister of Singapore. And the United States is currently negotiating the Transatlantic Trade and Investment Partnership with the EU to solidify U.S.-European ties, much as the Kennedy Round of free-trade talks did a half century ago.

What's more, aggressive economic sanctions brought Iran to the table for the nuclear deal and are weakening the Russian economy. Inexplicably, Blackwill and Harris never mention any of these cases, nor do they cite any specific issues that they would have handled differently.

What has changed dramatically over the postwar period is the increasingly pervasive impact of globalization on the U.S. economy. This means that foreign economic policy initiatives must promote, or at least avoid hurting, U.S. economic interests and win the support of key domestic groups. This may be frustrating for past and present diplomats, but it is the reality of today's world.

Foreign economic policy inherently combines foreign policy and economic policy. The real issue is how to mesh the two in ways that promote both sets of U.S. interests. Fortunately, open markets and international cooperation almost always make for good foreign policy and good economics.

C. FRED BERGSTEN

Senior Fellow and Director Emeritus, Peterson Institute for International Economics

NO LAW OF ANARCHY

To the Editor:

Robert Kaplan ("Eurasia's Coming Anarchy," March/April 2016) correctly identifies the domestic weaknesses of Russian President Vladimir Putin's regime. By arguing that these difficulties have produced "naked" aggression on Russia's part, however, Kaplan suggests a relationship between domestic affairs and foreign policy that does not always hold.

Consider the case of the Soviet Union, which by the mid-1980s had serious economic and political problems of its own. Under Mikhail Gorbachev, these domestic weaknesses yielded an accommodating foreign policy that recognized that the security of the United States and the Soviet Union could be mutually improved. This attitude helped produce arms control agreements on intermediate-range nuclear weapons and conventional weapons between the East and the West and, astoundingly, the Soviet Union's unilateral withdrawal of troops from Afghanistan, Mongolia, and Eastern Europe. The Cold War ended as a result.

There is no clear one way in which domestic weakness affects foreign policy. Russia's present weakness may yield an international stance more in line with Western interests than Kaplan seems to think.

GEORGE E. HUDSON
Mershon Associate, Mershon Center for International Security Studies, Ohio State University

GETTING ROME RIGHT

To the Editor:

Michael Fontaine's review of Mary Beard's *SPQR* ("What Rome Can Teach Us Today," March/April 2016) contains several serious flaws. First, Fontaine writes that the phrase *Senatus Populusque Romanus*, or "the Senate and the People of Rome," was "an advertisement for the link between Rome's citizens and its elected leaders." The term did name two distinct and separate categories of people whose collaboration through Rome's complex political institutions marked its form of government. But the people did not elect the Senate, and the Senate was often in conflict with those who were elected to office by the citizens of Rome.

Second, Fontaine writes, "Rome's classical era spanned the last two centuries BC and the first two centuries AD. At the beginning of that period, Rome already commanded a sizable empire, governed by democratic principles. By the end of it, Rome had become increasingly authoritarian but was still at peace internally." There are two problems here. In the second century BC, Rome indeed commanded a sizable empire, but only Rome itself was governed by anything approximating democratic principles. The empire was governed autocratically.

Also, how can Fontaine assert that at the end of this period Rome was still at peace internally? What of the massive civil wars that plagued most of the first century BC, the very chaos that led to the collapse of the republic and its replacement by the authoritarian imperial rule to which Fontaine alludes? "Still at peace" implies that it had been at peace internally throughout, which could not be further from the truth.

CHARLES D. KENNEY
Associate Professor of Comparative and Latin American Politics, University of Oklahoma

---

BURSTING THE BUBBLE

To the Editor:

Sanford Ungar ("The Study-Abroad Solution," March/April 2016) convincingly argues that sending more U.S. college and university students to study abroad will "produce future generations of Americans who will know more and care more about the rest of the world." But the way students spend their time abroad matters as much as whether they travel abroad in the first place.

Ungar himself warns against "'bubble' programs," in which students spend their time surrounded by other Americans and interact mainly in English. This is a crucial admonition. Students can best understand their host countries by living in communities rather than dorms and by participating in a range of activities beyond the classroom. Ideally, international experiences should be integrated into students' larger courses of study. The strongest international programs are overseen by faculty members, ensuring that study-abroad experiences are not simply instances of educational tourism or opportunities for colleges and universities to charge U.S. tuition for time spent at lower-cost foreign schools.

J. CHAPPELL H. LAWSON
Associate Professor of Political Science, Massachusetts Institute of Technology, and Director, MIT International Science and Technology Initiatives (MISTI)

APRIL JULICH PEREZ
Executive Director, MISTI

FOR THE RECORD

"The Study-Abroad Solution" (March/April 2016) mischaracterized the creation of the Commission on the Abraham Lincoln Study Abroad Fellowship Program. The commission was established via an omnibus appropriations bill for fiscal year 2004.

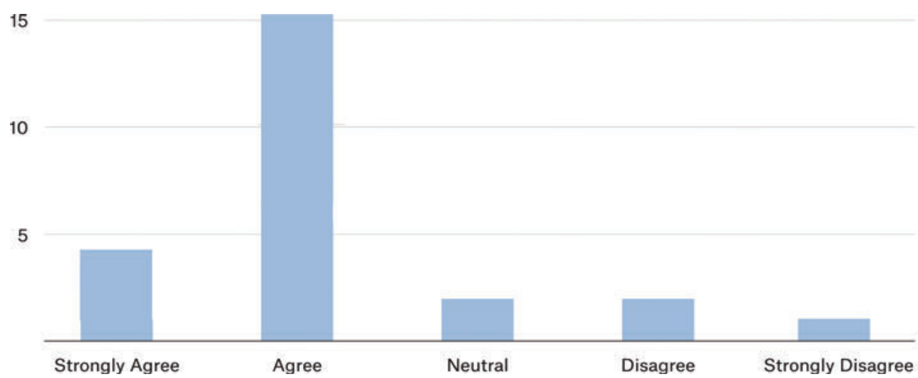
"Eurasia's Coming Anarchy" (March/April 2016) incorrectly equated the levels of corruption in Lithuania and Moldova; in fact, Lithuania suffers from far less corruption than Moldova.

Foreign Affairs (ISSN 00157120), May/June 2016, Volume 95, Number 3. Published six times annually (January, March, May, July, September, November) at 58 East 68th Street, New York, NY 10065. Print subscriptions: U.S., $54.95; Canada, $66.95; other countries via air, $89.95 per year. Canadian Publication Mail–Mail # 1572121. Periodicals postage paid in New York, NY, and at additional mailing offices. POSTMASTER: Send address changes to *Foreign Affairs*, P.O. Box 60001, Tampa, FL 33662-0001. From time to time, we permit certain carefully screened companies to send our subscribers information about products or services that we believe will be of interest. If you prefer not to receive such information, please contact us at the Tampa, FL, address indicated above.

Will Putin's Reign Last?

Foreign Affairs Brain Trust

We asked dozens of experts whether they agreed or disagreed that Vladimir Putin will still be in control of Russia five years from now. The results from those who responded are below:



Agree

"Odds are that one way or another, Vladimir Putin will continue to exercise power in Russia for a good long time."

OLGA OLIKER is Senior Adviser and Director of the Russia and Eurasia Program at the Center for Strategic and International Studies.

Strongly Disagree

"Putin's regime has been supported by economic growth, patronage, coercion, and a cult of personality. All are crumbling, and the regime is becoming unsustainable."

ALEXANDER J. MOTYL is Professor of Political Science at Rutgers University–Newark.

See the full responses at ForeignAffairs.com/PutinsPower