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POLE POSITION: A CONVERSATION WITH RADEK SIKORSKI

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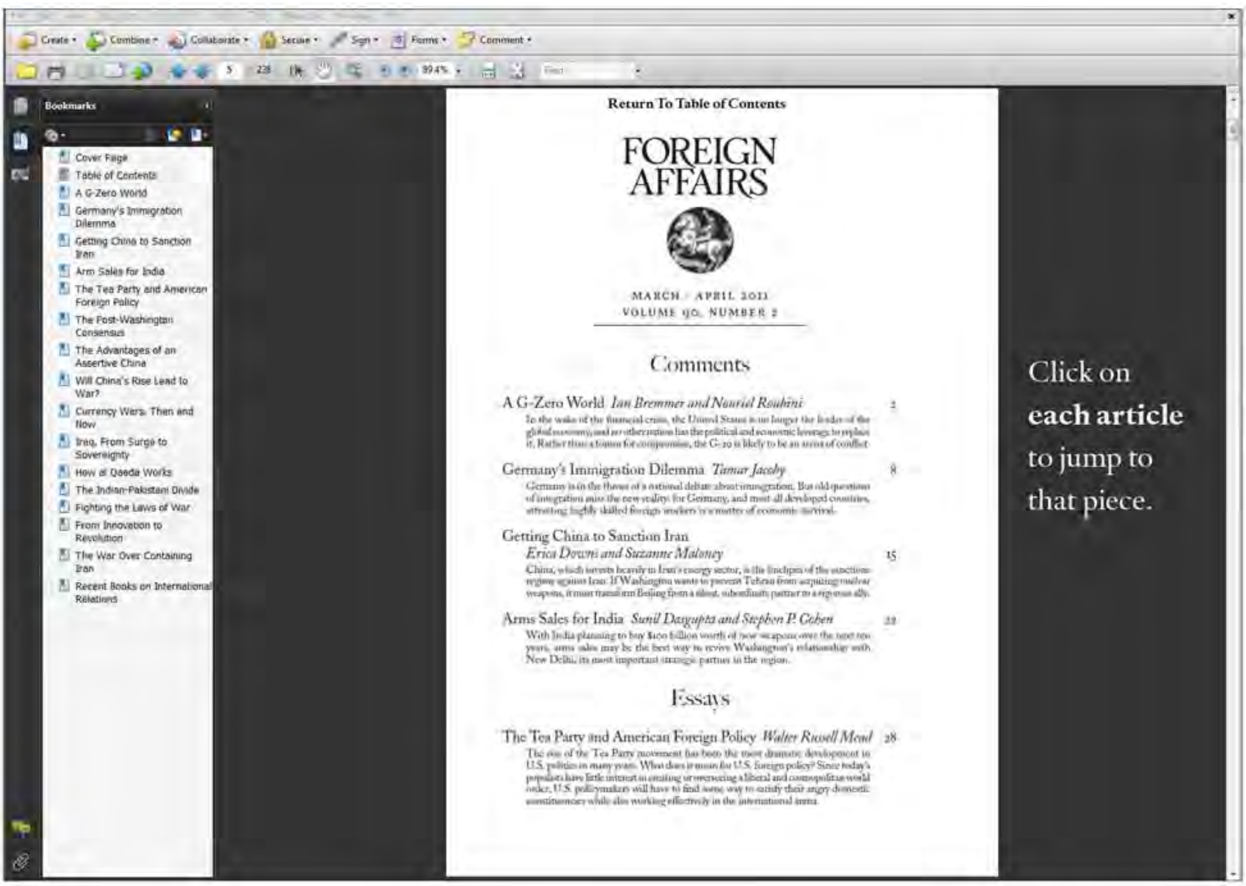

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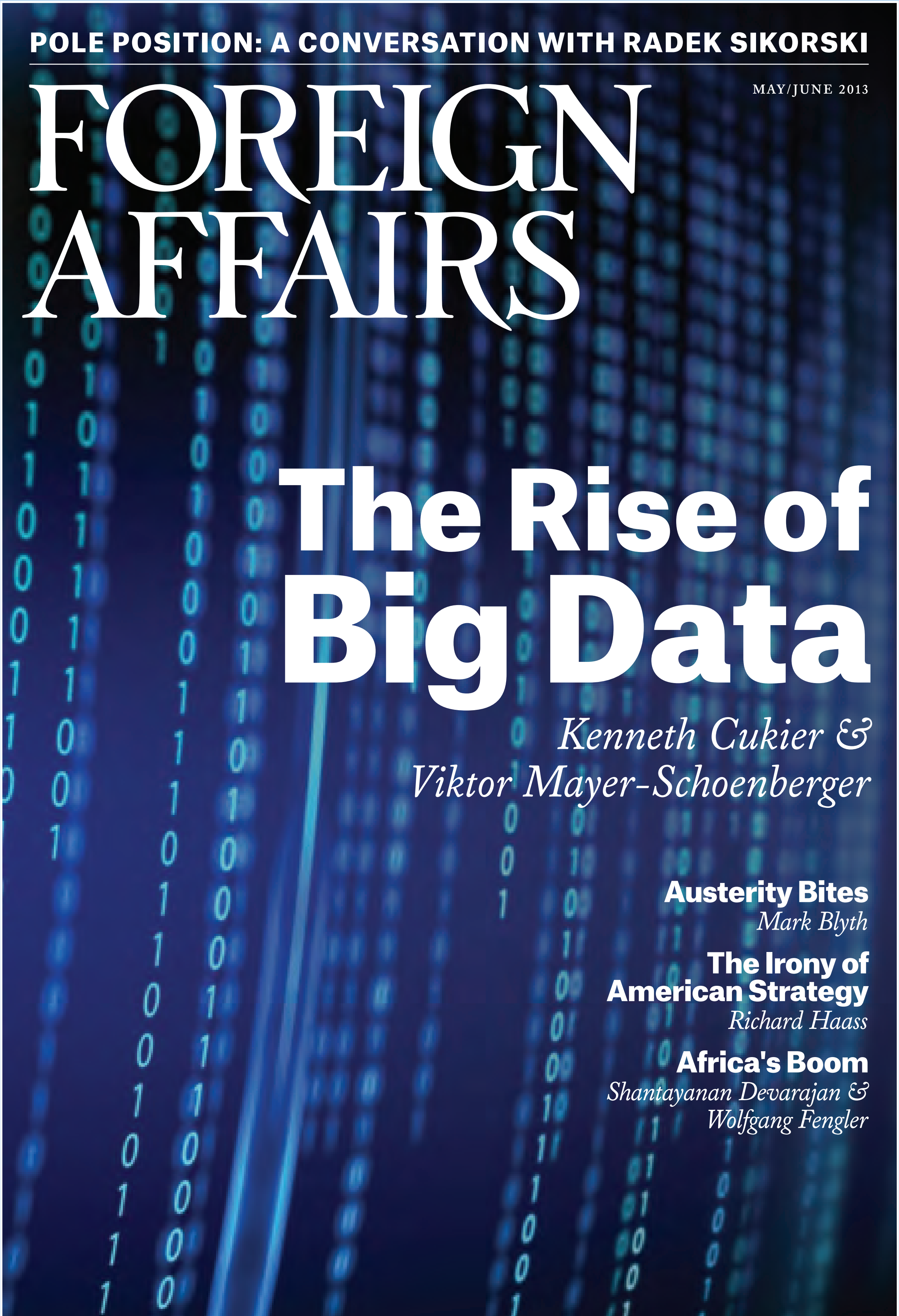

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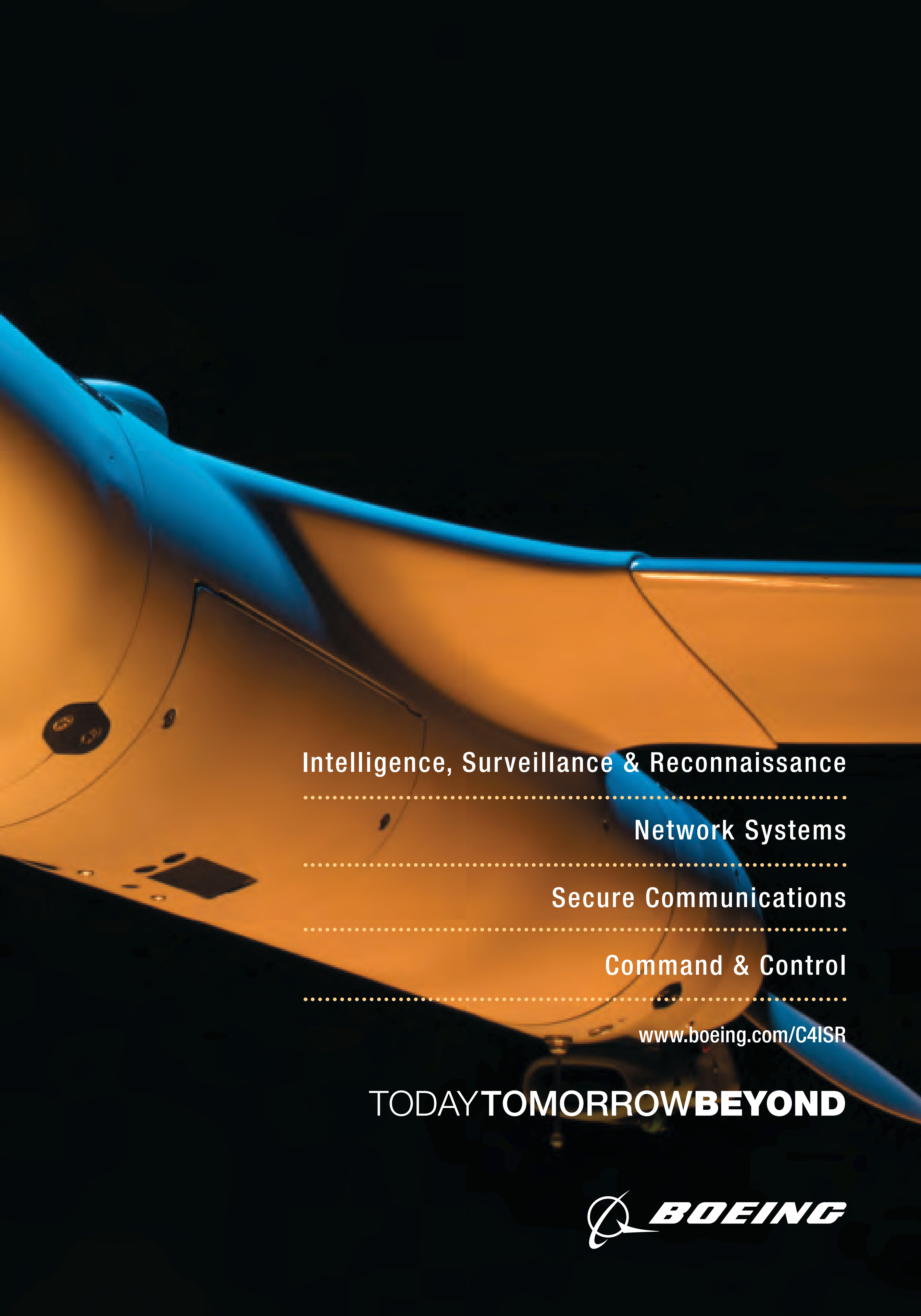
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Archibald Cary Coolidge, Founding Editor
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Between graduating from Harvard Law School in 1978 and becoming the White House's point man on federal regulation in 2009, **CASS SUNSTEIN** clerked at the U.S. Supreme Court, taught law at the University of Chicago, and published more than a hundred books and articles on topics ranging from behavioral economics, to public administration, to the law. Dubbed "the preeminent legal scholar of our time" by Justice Elena Kagan, Sunstein argues in "Regulatory Moneyball" (page 9) that data, not intuition, must drive government regulation.

From her perch at Boston University, where she is a professor of international relations, **MANJARI CHATTERJEE MILLER** studies the role of ideas in foreign policy. After finishing her latest book, which links the worldviews of China and India to their colonial experiences, Miller returned to her hometown of New Delhi to interview dozens of top Indian government officials on their work. The result is her essay "India's Feeble Foreign Policy" (page 14), which explores the country's profound unease with becoming a great power.

MARK BLYTH was born in Dundee, Scotland, the son of a butcher and a television rental agent. He credits his childhood experience as a "welfare kid" with introducing him to the value of government spending on social programs. An accomplished chef and bass guitarist who has released several albums on obscure independent labels, Blyth is now a professor of international political economy at Brown University. In "The Austerity Delusion" (page 41), he challenges the belief that governments can cut their way to prosperity.

Growing up Christian in communist Romania, where religion was outlawed, **VICTOR GAETAN** learned from a young age to make the sign of the cross secretly, moving his tongue behind closed lips when passing churches. After immigrating to the United States in 1969, he studied at Tufts University, began researching how Catholic communities survived in the Soviet Union for the Catholic News Service, and founded an art gallery in Washington, D.C. Now the international correspondent for the *National Catholic Register*, Gaetan chronicles Rome's recent efforts to unify Christianity in "The Church Undivided" (page 117).

SUNSTEIN PHOTO COURTESY OF BLOOMBERG

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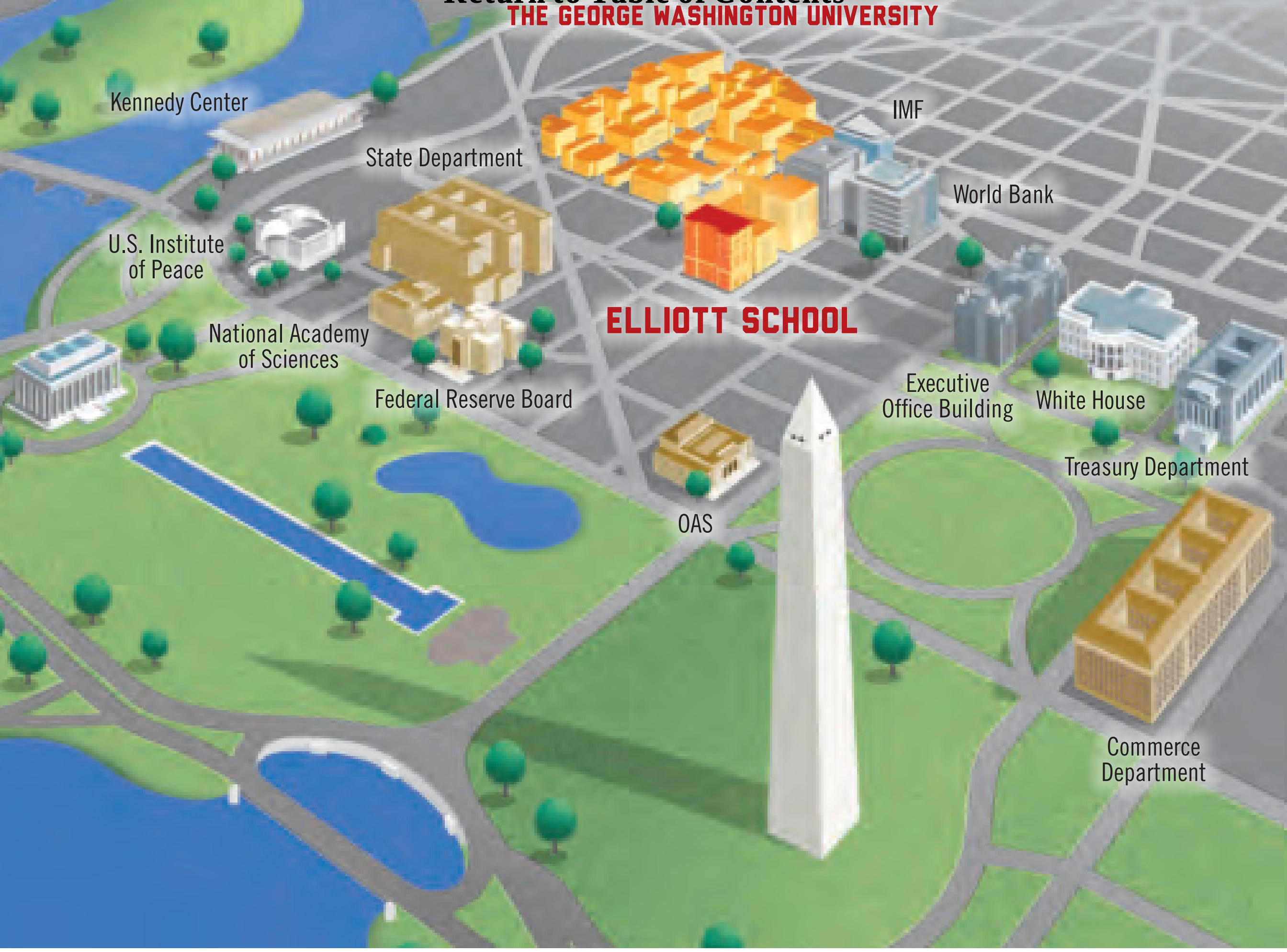

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Government regulators should take their cues from the statistics-obsessed scouts of Moneyball, *favoring data over intuition.*

– Cass Sunstein

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The Polish Model

A Conversation With Radek Sikorski

Radek Sikorski grew up in Bydgoszcz, Poland, where he led a student strike committee during protests against the communist regime in the spring of 1981. He was studying abroad when the Jaruzelski government declared martial law later that year, and he was granted political asylum in the United Kingdom from 1982 to 1989. After graduating from Oxford, he worked as a journalist, returning to Poland after its democratic revolution in 1989 and entering politics. He served as deputy minister of national defense in 1992, deputy minister of foreign affairs in 1998–2001, and minister of national defense in 2005–7; since late 2007, he has been Poland's minister of foreign affairs. He spoke with *Foreign Affairs* editor Gideon Rose in March.

You and your country have lived through a lot of history over the years, a lot of epic ideological and geopolitical conflict. Will Poland's future be as turbulent as its past, or have you reached an equilibrium that will allow you to have a normal national life?

Indeed, both the Second World War and Solidarity started in Gdansk. The twentieth century was a roller coaster for Poland, regaining independence after World War I, then losing it and getting ethnically cleansed by Stalin and Hitler together, and then 45 years of struggle for democracy. Hopefully, we'll produce less history than in the past. Geopolitically, we are having the best time in 300 years. And we are now contributing to other countries' stability, being a source of European solutions.

So Poland is finally at the "end of History"?

Inshallah, as they say.

You have said that by background and experience, you might well have become a Euroskeptic, and yet you're the opposite. How come?

As a conservative with a small *c*, I have a healthy suspicion of human institutions and of centralizing too much power at too high a level. And I lived for some years as a political exile in Britain, and if you only read, and believe, the British press, it's hard not to become a Euroskeptic. But since then, I have learned from experience how the European Union actually works, and it was a surprise. It is very difficult, for example, to pass a European directive, because it's not at all a fiat by Brussels bureaucrats, but something that needs the agreement of member states.

So the European Union is good for Poland, and you would like to draw even closer into it and join the eurozone?

The European Union is extremely good for Poland. It was good for us even before we joined, because it gave us a strategic direction and a sort of civilizational template that secured democratic free markets in law. It required determination to get there, but now it is also the framework in which, for example, we no longer fear Germany, because we are both stakeholders in the same community. And the Visegrad Group—Poland, the Czech

CORBIS IMAGES / WIKTOR DABKOWSKI

Poland's foreign minister
in Belgium, March 2011

Republic, Slovakia, and Hungary—have the same number of votes as Germany and France combined. The Polish presidency in the European Union was particularly useful. It helped us to improve the quality of our state apparatus, gave us the experience of responsibility for 500 million people, and taught us to think on a continental scale.

The European project has been in crisis in recent years. How does it get past that, and what is its future?
As a currency, the euro is doing fine. Its proportion in the reserve baskets of major states is stable, as is its exchange rate against other major currencies. The crisis is one of indebtedness in some eurozone member states. But non-eurozone states—United States, the United Kingdom, and Japan—also have problems with indebtedness. The eurozone's problem was that the crisis hit before the European Union had developed an institutional framework able to deal with it. We have now created that framework, and it's quite a tough one. It will make irresponsibility by politicians much harder. And it has also decided a major economic question of the twentieth century, because it represents the victory of the Chicago school over Keynes. We had come to the limit of Keynesian-style monetary stimulation.

So you don't buy the argument that Europe's recent experience shows that austerity has been a mistake?
Look at the successful and unsuccessful countries in the eurozone. If Germany hadn't carried out its labor-market reforms, which today would be called austerity, it would not be in the place it's in. You have to make your economy competitive. "Austerity" is actually a misleading term, because we should be austere in one particular area—towards our overblown public sectors. We should do what Latvia did, sacking 30 percent of bureaucrats and cutting the wages of the rest, rather than passing the crisis on to pensioners and socially disadvantaged groups.

So the question is not whether cuts can and should be made but how to make them wisely?
And how to sell them to the public, explaining the origins of the crisis and detailing a credible path towards overcoming it. That's what the Latvians did, and as a result, not only is Latvia growing again, but the government got reelected. This is an inspiration from the former eastern Europe to the rest of the continent.

Poland has been an economic success story in recent years. What lessons does its experience offer?
Our economy has indeed grown by almost 20 percent cumulatively over the last four years, and our eurobonds are now more in demand, at lower interest rates, than those of Spain, Italy, and even France. And our economy is going up in various international indices, such as those for industrial competitiveness. All that is the result of fundamental reforms that we carried out 20 years ago and that we continue to push—without rioting. For example, just last year, we extended the retirement age for women from 60 to 67 years. Since we suffered hyperinflation in the 1980s, we've been permanently converted to fiscal responsibility. In that sense, we've become northern European.

Our reform program in the early ’90s was carried out in the spirit of a cavalry charge, and it worked. Our recession lasted the shortest, was the shallowest, and left the country better prepared for the recent financial crisis. Others in the post-Soviet world had illusions that dragging it out would diminish the pain. Various countries privatized by various means with different levels of public mistrust. That means our region offers a rich database of what works and what doesn’t work, which can be used in other contexts, such as the greater Middle East, or Burma, or Central Asia. But I think the main lesson is that there really isn’t a “third way” between a command economy and the free market. By delaying reform, you just risk getting stuck in the middle, with crony capitalism and corruption.

You made headlines a while back when you called for a strong German leadership role in carrying out reforms in Europe. What did you mean?
That speech came at the precise moment when the whole world was frightened of the eurozone collapsing, with potentially apocalyptic consequences for the global economy. And of course, for good historical reasons, Europeans—and we Poles in particular—are wary of an assertive Germany. But if you are economically and financially the strongest power on the continent, you also have the greatest responsibility.

How did the Germans react to hearing this from a Pole?
I heard that there was a three-phase reaction at the highest levels. The first was gratitude that a Polish politician would speak about Germany so confidently, at last treating Germany like a normal neighbor. The second reaction was, “No, we can’t lead on reform; we are Germans. We don’t lead in Europe; our leadership is a dangerous thing.” And the third, and apparently final, reaction was, “Maybe he’s right; maybe if we don’t act, the whole thing will collapse, so we’d better do something.” And they did.

Is the lesson from German-Polish rapprochement that even countries with some of the most terrible bilateral histories in the world can still manage to reconcile over time?
Absolutely, because I believe our reconciliation with Germany is now complete. We are strong treaty-based allies, but also partners in the EU and joint initiators of important EU projects. But remember, we’ve also achieved reconciliation with Ukraine—a country with whom we had a history of massacres and ethnic cleansing in the 1940s.

We are working toward reconciliation with Russia as well, but it’s harder because the Russians find it difficult to disentangle their pride in winning the Second World War from what should be their revulsion at Stalinism. So we have to play a long game. Our churches have issued a joint statement modeled on the Polish-German statement of the 1960s, and we appreciate President Putin’s visit in 2010 to Katyn, the site of a massacre of thousands of Polish POWs. And we have a joint group on difficult issues which is working to establish the facts of our tragic history.

Can you imagine any kind of renewed geopolitical conflict to your west in your lifetime?
As a former war correspondent and a writer, I have a vivid imagination, but

no, I cannot imagine an armed conflict between us and Germany.

Does your imagination extend to the possibility of a future conflict to the east?
Our relations with Russia, like yours, are pragmatic but brittle. And unfortunately, after the war between Russia and Georgia, I'm afraid conflict in Europe is imaginable. We have an intensive dialogue with Russia on security issues, and I hope we will manage to mediate our differences. For example, now that the U.S. will not be building a fourth phase of missile defense [in Europe], the phase that potentially affected the Russian nuclear deterrent, we hope that Russia will keep its word and refrain from hostile missile deployments on the NATO border.

You've been a strong proponent of an autonomous European defense identity. Isn't that simply duplicative of NATO? What is the reason for such a capacity?
In security matters, our first loyalty is to NATO, and we've proven this with deeds. When our ally the United States was struck by terrorists, we rallied around, and Poland has sent a contingent of 2,600 troops to Ghazni, one of the most difficult provinces in Afghanistan. We joined a non-NATO "coalition of the willing" in Iraq, sending a brigade and commanding a division composed of troops from two dozen nations. We are still in the Balkans. NATO is the bedrock of our security, and we are one of the few countries that maintain defense spending at nearly two percent of GDP and of even fewer that have increased such spending during the economic crisis.

But we also believe that Europe should never again be as helpless as it was in the 1990s in the face of major emergencies in its own neighborhood. If you remember, it took two years before the United States realized that Europe wasn't able to bring peace to Bosnia. And unfortunately, 200,000 people died to make the point. Europe should also do more to help shoulder America's global responsibilities at a time of strained defense budgets. I am glad the United States encourages Europe to become capable of carrying out operations in its vicinity.

Poland has participated in most of the EU's two dozen operations, such as in the Congo, in Chad, and now in Mali. Europe has also effectively used lethal force. Last year, a kinetic operation was carried out against Somali pirates in which their boats were destroyed, and as a result, the incidence of piracy off the Horn of Africa has dropped by 70 percent. That is a perfect example of Europe and America working side by side and achieving a joint objective.

Do you worry about the future of democratic stability in Europe thanks to the economic crisis and the efforts taken to address it?
I do. When you have a crisis and politicians blame the crisis not on their own past profligacy but on the body that is helping them, the European Union, it's odd and dangerous. Austerity puts a huge strain on a democratic polity, and it calls for responsible leadership in explaining to people what went wrong, why, and what measures are necessary to fix it.

What is your take on the Arab Spring?
We Poles, like you Americans, are a revolutionary people. So when others get rid of their tyrants, our initial reaction is one of solidarity. But we also

know the rules of politics, that crises are usually taken advantage of not by the best people but by the best-organized people. There is very little that we as outsiders can do to affect events, except to set a good example. We sponsored a multipart documentary in Arabic on the Polish democratic transition on Al Jazeera. We sent Lech Walesa to Tunisia to tell them how we did it. I was the first EU foreign minister in Benghazi, when Qaddafi was still fighting. And meeting with the then Provisional National Council made me realize that the challenges that these societies face are identical to what we in central Europe faced two decades ago.

For example, are you going to have a unitary state or a federation? What is the role of organized religion in your country going to be? Do you amend the existing constitution, or do you write a new one? Do you want a presidential or a parliamentary system? What do you do about the personnel of the old regime, meaning secret policemen but also judges, teachers, bureaucrats, diplomats, all of whom got tainted in some way? What do you do about the archives of the old regime? These usually contain explosive material about large swaths of a society that can make or break careers. Do you destroy them, lock them up, make them accessible to the public? How do you write a media law in a democracy, and how do you grant broadcasting licences so that oligarchs don't dominate the airwaves?

In various countries in the post-Soviet world, these issues were dealt with differently, and so people in the Middle East today can see what decisions lead to what results. That is why some of these countries think of us as role models. We are more comparable to them than the United States. And they are more willing to take lessons from us than from their former colonial masters or from countries with strong ties to their former dictators. Poland is true to herself when we play the role of a beacon of international solidarity on democratization. This is what the majority of Poland's developmental assistance is devoted to. We've created a Polish Foundation for International Solidarity. And during our presidency of the EU, we initiated the creation of the European Endowment for Democracy, consciously modeled on its U.S. counterpart.

Some have argued that the greatest contribution of Europe to democracy promotion is the EU's openness to new members on its periphery, along with strict accession criteria for joining. Can that be used to help further progress?
Absolutely. It's no accident that the Nobel Foundation specifically mentioned enlargement in its citation for the European Union's Peace Prize. The Treaty of Rome says that any European country can join. It is modulated by the Copenhagen criteria, which include the rule of law and democracy.

We are in the process of admitting Croatia now and have extended a promise of possible future membership to countries in the western Balkans. Then, you get into the tricky business of defining what being in Europe means. Certainly, it applies to countries that have the majority of their territory in Europe. But Poland also supports Turkish admission, and we worked hard during our presidency to open another negotiating chapter, which I hope will happen imminently. Naturally, we can't enlarge forever. But even the promise of a greater association with us in terms of visa liberalization and trade is a very powerful incentive. I wish we could do it more quickly and more generously in response to political events in our neighborhoods. I wish that we, as Europe, could grant privileges for countries' good behavior and withdraw them if they stray.

You're a proud and passionate Polish patriot. You are also a proud European. You're a proud Westerner. How do such overlapping identities play out in the twenty-first century?
Being European does not supersede one's national identity; it adds another layer. In Europe, we have regional patriotisms and local patriotisms. Europe is another locus of our identification. Often, you discover your European identity while traveling or living abroad, just like Americans have discovered the reverse while staying in Europe. Being in the European Union helps us to build a successful Poland and therefore strengthen a new Polish pride based on success rather than on the wrongs that we suffered in the past.

Speaking of the United States, two of the signature initiatives of the Obama administration in its first-term foreign policy were the "reset" with Russia and the "pivot" to Asia. Both of those could be construed as paying less attention to eastern Europe. Did that bother you?
Most countries crave attention from the United States. But we started our reset with Russia before you. When our government was formed, in 2007, we made a cooperative move, lifting our objections to Russia joining the OECD, and waited for the move of the other side. Russia responded by lifting the embargo on our agricultural exports. As for the pivot, the job of freeing and uniting Europe and making it safe is largely done, so it's no surprise that America is paying attention to those regions where there might be more trouble and also huge economic opportunities. Having lived in Washington, I appreciate America's global perspective. I wish we in Europe were thinking and acting as strategically.

Do you worry about Europe's declining role in the world geopolitically, with the rise of Asia and other developing-country powers?
I worry about the whole West's relative demographic and economic decline. We are still, Europe and the United States together, 47 percent of global GDP. If we create a transatlantic free-trade area, this might be the last moment when we can become a regulatory superpower. We need to co-opt the rising powers and give them stakes in existing institutions, because otherwise, demography being destiny, they will eventually create their own.

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Regulatory Moneyball

What Washington Can Learn From Sports Geeks

Cass R. Sunstein

Chances are that you will never hear a crowd at a protest rally chant, "What do we need? Regulation! When do we need it? Now!"

People want safe food, clean air, and clean water. But in the abstract, regulation is never a popular idea. In a tough economic environment, it might seem like a recipe for disaster. In the United States, businesses large and small have long argued that they are subject to excessive red tape and government oversight, and in the context of a serious recession, that concern has become acute. In light of the country's general enthusiasm for freedom of choice, regulation is particularly vulnerable to political attack.

I learned just how intensely many Americans oppose government regulation in 2009, when President Barack Obama nominated me to become the administrator of the White House Office of Information and Regulatory Affairs. The OIRA administrator is often described as the nation's "regulatory czar." That is a wild overstatement. But the term does give a clue to the influence and range of the office. OIRA is the cockpit of the regulatory state. The office oversees federal regulations involving clean air and water, food safety, financial stability, national security, health care, energy, agriculture, workplace safety, sex and race discrimination, highway safety, immigration, education, crime, disability rights, and much more. In general, the nation's cabinet-level departments—such as the Treasury Department, the Energy Department, and the Environmental Protection Agency—cannot issue a significant rule unless OIRA approves.

For me, heading OIRA was a dream job. I have spent much of my career writing about the proper role of regulation. Before my nomination, I had written in favor of "nudges": simple strategies to affect behavior that do not force anyone to do anything and that maintain freedom of choice but that have the potential to make people healthier, wealthier, and happier. Examples include a requirement that automobile companies disclose the fuel economy of new cars, an educational campaign to discourage texting while driving, and an effort to encourage employers to enroll employees automatically in savings plans.

Those who favor nudges recognize the importance of freedom of choice. They respect free markets and private liberty. They allow people to go their own way. At the same time, they emphasize that people may err and that, in some cases, most of us can use a little help. They insist that choices are made against a background, created by private and public institutions. Nudges are everywhere, whether we see them or not.

CASS R. SUNSTEIN is Robert Walmsley University Professor at Harvard University. From 2009 to 2012, he served as Administrator of the White House Office of Information and Regulatory Affairs. This essay is adapted from his most recent book, *Simpler: The Future of Government* (Simon & Schuster, 2013).

I was eventually confirmed by the Senate, but only after a protracted fight. Progressives expressed disappointment that the president had chosen someone who favored cost-benefit analysis and who promoted modest, low-cost approaches to regulation. Conservatives warned that I was a radical leftist who would try to ban hunting, eliminate free speech, and steal human organs. (The Fox News Channel's Glenn Beck called me "the most evil, most dangerous man in America.")

Notwithstanding the charges, one of my main goals was to ensure that data and evidence, rather than intuition and interest groups, would be the foundation of regulatory policy. On the rare occasions when members of my staff pointed out the views of interest groups, my response was, "That's sewer talk. Get your mind out of the gutter." I was joking, of course, but the joke had a point. I was less interested in the positions of interest groups than in figuring out the answers to basic questions about regulation: What do we actually know about the likely effects of proposed rules? What would be their human consequences? What are the costs and benefits? How can the government avoid reliance on guesses and hunches? What do we know about what existing rules are actually doing for—or to—the American people? How can we make things simpler?

BILLY BEANE GOES TO WASHINGTON

Relying on empirical evidence might seem obvious, a little like relying on sense rather than nonsense. But the temptation to favor intuition over information is strong. Think of *Moneyball*, Michael Lewis' best-selling 2003 book, which was the basis for the hit film of the same title, starring Brad Pitt. Lewis tells the story of Billy Beane, the general manager of the Oakland Athletics baseball team. With the help of his statistics-obsessed assistant, Paul DePodesta, Beane brought the once-lowly Athletics into the top tier of baseball teams, and wound up transforming professional baseball, by substituting empirical data for long-standing dogmas, intuition, and anecdote-driven judgments. Lewis makes clear the difference between the two approaches in this exchange about a particular player between Beane, DePodesta, and a veteran baseball scout:

> "The guy's an athlete, Billy," the old scout says. "There's a lot of upside there."
>
> "He can't hit," says Billy.
>
> "He's not that bad a hitter," says the old scout. . . .
>
> Paul reads the player's college batting statistics. They contain a conspicuous lack of extra base hits and walks.
>
> "My only question is," says Billy, "if he's that good a hitter why doesn't he hit better?"

In the past, too many regulators have been tempted to listen a bit too much when they were told that "the public is very worried," or that "polls show that the majority of people strongly favor protection against air pollution," or that "the industry has strong views," or that "the environmental groups will go nuts," or that "a powerful senator is very upset," or that "if an accident occurs, there will be hell to pay." None of those observations addresses the real question, which is what policies and regulations would achieve. All over the world, regulatory systems need their own Billy Beanes and Paul DePodestas, carefully assessing what rules will do before the fact and testing them after the fact.

Some might object that debates about regulation are really about values, not facts. According to this view, when people disagree about a rule that would protect clean air or increase highway safety, it is because of what they most value, not because of disagreements about the evidence. On some of the largest issues, values and predispositions do play a critical role. At the same time, it is easy to overstate the point. For example, most people's values do not lead to a clear judgment about whether to require rearview cameras in cars. Values alone cannot guide the decision about whether to reduce levels of ozone in the ambient air from 75 parts per billion to 70 parts per billion or, for that matter, to 20 parts per billion. To evaluate such proposals, factual evidence is indispensable.

When the evidence is clear, it will often lead people with different values to the same conclusion. If a regulation would save many lives and cost very little, people are likely to support it regardless of their party identification, and if a regulation would produce little benefit but impose heavy costs, citizens are unlikely to favor it regardless of their ideas about government. Call it "Regulatory Moneyball": making choices about rules without relying too heavily on intuition, anecdotes, dogmas, and impressions.

NOT AS EASY AS ONE, TWO, THREE

Cost-benefit analysis does run into many challenges. Regulations might involve both costs and benefits that are difficult to quantify and monetize. How, for example, should the government value a human life? In answering that question, agencies do not, in fact, assign monetary values to lives. Instead, they ask this question: How much should we pay to avoid statistical risks? That question, while not exactly easy, is far more tractable.

Suppose that the Department of Transportation is considering a rule that would require all cars to adopt a new air-bag technology that would eliminate a one-in-100,000 chance of death in a collision. How much is it worth to eliminate that risk? One way to answer that question is simply to ask people, "How much would you pay to eliminate such a risk?" Research shows that a common answer is $50.

Of course, there are problems with posing abstract, hypothetical questions of this sort; maybe the answers are not very meaningful. So another way to answer the question is to look at the evidence from the market. Suppose that across large populations, workers who are subject to a mortality risk of one in 100,000 generally receive a wage bonus, or premium, of $90. That would suggest a "value of a statistical life" of $9 million. Relying on evidence from the labor market, then, the federal government would spend no more and no less than $90 per individual to eliminate that risk.

But these simple approaches would leave many questions unanswered. For example, should children's lives be valued more, less, or the same as the lives of adults? More precisely, how should the government treat statistical risks faced by children? Parents would be willing to spend a lot to reduce risks to their children; shouldn't their wishes count? The other end of the age spectrum raises similar questions. Suppose that a rule would mostly extend the lives of the elderly by a short time: for example, an air-pollution rule whose main effect would be to add a few months to the lives of people over the age of 80. Should agencies give a lower value to the lives of old people because the effect might prolong lives by only a matter of months? Would those few extra months justify a high cost if the same amount could extend a younger person's life by decades? Or is that difference irrelevant?

KEEP IT SIMPLE

Similar problems arise when a rule or regulation would have different effects on different groups of people. Suppose that a workplace safety rule would cost $400 million and produce benefits of $350 million. At first glance, the rule fails a cost-benefit test. But suppose that the costs would be incurred by those who sell and use a luxury good (say, expensive cars) and that the benefits would be enjoyed by those who are near the bottom of the economic ladder (say, those who do manual work in producing such cars). Or suppose that a rule reducing air pollution would cost $900 million but produce benefits of only $800 million—but with the costs imposed on polluters (and those who work for them and purchase their products) and the benefits enjoyed mostly by people who are poor or struggling economically.

Because the real world does not lack examples like these, Regulatory Moneyball needs to concern itself with more than just total costs and total benefits. Obama recognized this point in the sweeping executive order that he issued on regulation in 2011, which directed agencies to quantify costs and benefits "as accurately as possible" but also allowed them to "consider (and discuss qualitatively) values that are difficult or impossible to quantify, including equity, human dignity, fairness, and distributive impacts."

Factors that are hard to quantify played a role in some important decisions. For example, in 2010, the Centers for Disease Control and Prevention eliminated the long-standing ban on the entry of HIV-positive people into the United States. This was an extremely important decision, fulfilling a promise that Obama had made during his 2008 campaign. In supporting its decision, the CDC presented a lot of numbers in a detailed quantitative analysis of the expected costs and benefits. These numbers included the economic gains that would result if more people could enter the country and engage in economic activity and also the health effects, including some risk that the decision would lead to a modest increase in HIV infections as a result of the new entrants.

At the same time, the CDC emphasized that some of the most important benefits of the rule could not be turned into monetary equivalents. "Although we are unable to quantify all of the benefits of this change in policy," the CDC wrote in issuing the rule, "we believe it will help reduce stigmatization of HIV-infected people [and] bring family members together who had been barred from entry (thus strengthening families). . . . There are also ethical, humanitarian, distributional, and international benefits that are important to consider but difficult to quantify." With explicit reference to these unquantifiable benefits, the CDC concluded that the benefits of the rule justified its costs.

It is perfectly appropriate for agencies to take unquantifiable factors into account. But excessive regulation is a genuine concern, and agencies should not use their authority to consider qualitative factors as a license to do whatever they like. While I was at OIRA, the Obama administration took a number of steps to ensure a disciplined approach. The first step was to promote accountability by recommending that all significant regulations be accompanied by a simple table that offered three things: first, a clear statement of both the quantitative and the qualitative costs and benefits of the proposed or final action; second, a presentation of any uncertainties; and third, similar information for reasonable alternatives to the action. In a related step, OIRA required agencies to include a clear, simple executive summary of any new rules, explaining what they were doing and why and offering a crisp account of the costs and benefits, both quantitative and qualitative. Many federal rules are extremely long and complex, and it is hard for people to know what they are trying to do and why. A clear summary can help a great deal.

TRUST THE NUMBERS, BUT VERIFY

One of the most interesting recent findings in behavioral economics is that some of the most important human errors disappear when people are using a foreign language. Asked to resolve problems in a language that is not their own, people are less likely to blunder. In an unfamiliar language, people are more likely to get the right answer.

The reason is straightforward. When people use their own language, they think quickly and effortlessly, and so their intuition has the upper hand. Their rapid, intuitive reactions are slowed down when they are using a language with which they are not entirely familiar, and they are more likely to do some calculating and to think deliberatively—and to give the right answers. In a foreign language, people have some distance from their intuition, and that distance can prove extremely valuable.

There is an important lesson here. Cost-benefit analysis is a foreign language, and a pretty good one. It is also the closest thing we have to Regulatory Moneyball.

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NHI SUCCESS

Equity. Quality. Efficiency.

Taiwan Takes the Lead in National Health Insurance Reform

Social insurance in Taiwan dates back to the inception of the Labor Insurance program in 1950. Two other plans—Government Employees' Insurance and Farmers' Insurance—were later added, and these three social insurance programs covered approximately 59% of the country's citizens by the time the National Health Insurance system was put in place in 1995.

Taiwan's National Health Insurance (NHI) plan is a single-payer program run by a government agency, the Bureau of National Health Insurance. It essentially covers 100% of the population, even foreigners legally living in Taiwan; the package of benefits available to the insured is comprehensive and identical for each and every individual. Medical institutions can choose whether to contract with the NHI program, and 93% of them opted to do so. We have phased in a global budget payment system to control the growth of medical expenditures, while maintaining multiple reimbursement schemes for health care.

Through the national health insurance system, Taiwan has successfully provided universal and quality health care at affordable costs to the country's people over the past 18 years. The financial barriers to health care have been successfully removed for all citizens by having the rich subsidize the poor and the healthy subsidize the unhealthy, and access to health care has been remarkably enhanced. Patients can choose freely from nearly 20,000 health care providers, usually without the need to wait in line.

The NHI program spends around $15 billion annually on medical expenditures to ensure that all those covered by the system—especially those with catastrophic illnesses or rare disorders and financially or geographically disadvantaged groups—have access to the care to which they are entitled.

The plan has raised life expectancy to 82.3 years for females and 76 years for males, and the infant mortality rate has fallen to 4.2 per thousand, all at a very affordable cost. The NHI program accounts for only 3.5% of GDP, and total health expenditures are only 6.6% of GDP, which is relatively low when compared with the OECD countries. Those numbers rank Taiwan ahead of

The NHI program has rewritten Taiwan's health care history and become one of Taiwan's most successful public programs.

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many OECD countries in terms of health care system performance.

Because of these many attributes, the NHI program has rewritten Taiwan's health care history and become one of Taiwan's most successful public programs, with satisfaction ratings consistently above 80 percent.

The plan's sustainability has faced serious challenges in recent years, however, with the growth of medical expenditures increasing more rapidly than the growth of premium revenues, due to an aging population, expanded coverage of new drugs and technologies, greater demand for higher quality health care, and premium revenue shortfalls.

The revenue side problems stemmed from the fact that the program's premiums are calculated based only on regular salary income, with many other forms of income excluded. In recent years, salary income has steadily declined as percentage of Taiwan's national income, leading to premium growth lagging behind income growth and revenues falling short of the established targets.

To ensure the program's sustainability, the government decided to reform the national health insurance system. Under the revised plan, a supplementary premium will be collected on non-salary incomes (such as bonuses, part-time job wages, stock dividends, saving interests, and rentals), which should lead to greater cross-subsidization from the rich to the poor and a more fair and equitable distribution of the financial burden.

The effort to reform the NHI program is based on the core values of "equity," "quality," and "efficiency." It focuses on organizational re-engineering, financing, payment system, information transparency, accountability, and public participation, and aims to achieve a more equitable premium rate, a broader income base, and fairer premiums. The reform initiative is expected not only to expand the funding base and spread the financial burden more equitably; it also hopes to safeguard the rights and interests of NHI participants in receiving medical care, protect the health of the people, and improve the quality of medical services.

Taiwan's national health insurance will continue to strive to improve quality of care, health care for the disadvantaged, maintain sustainable finances, reinforce health promotion and preventive medicine, and facilitate international health exchanges.

Taiwan has taken the lead in reforming its NHI program, and may inspire other nations to follow and fulfill the WHO's goal of "Health For All."

Wen-Ta Chiu

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Minister of Health
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India's Feeble Foreign Policy

A Would-Be Great Power Resists Its Own Rise

Manjari Chatterjee Miller

For the last decade, few trends have captured the world's attention as much as the so-called rise of the rest, the spectacular economic and political emergence of powers such as China and India. Particularly in the United States, India watchers point to the country's large and rapidly expanding economy, its huge population, and its nuclear weapons as signs of its imminent greatness. Other observers fret about the pace of India's rise, asking whether New Delhi is living up to its potential, whether the country's shoddy infrastructure will hold it back, and whether it is strong enough to counter an increasingly ambitious China. All of this frenzied discussion, however, overlooks a simple fact: within India itself, the foreign policy elite shies away from any talk of the country's rising status. As a senior official who has worked on India's relations with Western countries recently told me, "There is a hysterical sense, encouraged by the West, about India's rise." A top-level official in India's foreign ministry echoed the sentiment: "When do we Indians talk about it? We don't."

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What explains this discrepancy? As I found through a series of interviews with senior officials in the Indian government, many of whom requested anonymity, it is a result of three important facts that have gone largely unnoticed in the West. First, New Delhi's foreign policy decisions are often highly individualistic—the province of senior officials responsible for particular policy areas, not strategic planners at the top. As a result, India rarely engages in long-term thinking about its foreign policy goals, which prevents it from spelling out the role it aims to play in global affairs. Second, Indian foreign-policy makers are insulated from outside influences, such as think tanks, which in other countries reinforce a government's sense of its place in the world. Third, the Indian elite fears that the notion of the country's rise is a Western construct, which has unrealistically raised expectations for both Indian economic growth and the country's international commitments. As one senior official with experience in the prime minister's office said, the West's labeling of India as a rising power is "a rope to hang ourselves." By contrast, Chinese political leaders and intellectuals pay a great deal of attention to the international hype surrounding their country's emergence, and Chinese think tanks and media outlets regularly try to shape and respond to this discourse.

India's discomfort with being labeled a rising power should lower Washington's ambitions for its partnership with New Delhi. India can be convinced to play an international role in areas where its narrow interests are at stake, but it will not respond positively to abstract calls for it to assume more global responsibility.

TACTICS WITHOUT STRATEGY

By and large, three bodies in the Indian government work together to make foreign policy: the prime minister's office; the National Security Council, led by a powerful national security adviser; and the foreign ministry. The prime minister's office is seen as the ultimate seat of authority, and other foreign-policy makers jockey to move closer to it. One factor, however, cuts across all three bodies. All three offices and their top positions are filled by Indian Foreign Service officers. Understanding the structure of the foreign service and the role of its officers is essential to explaining why the rise of India garners more attention in New York than it does in New Delhi.

The Indian civil service was created by the British government in the nineteenth century to help administer its vast colonial empire. Known as "the steel frame" of British rule on the subcontinent, the civil service was retained by India after it won its independence in 1947. The service remains highly prestigious today: new officers are selected through a competitive civil-service exam and sorted into the various branches based on their rank. The foreign service stands out as one of India's most elite institutions, reportedly accepting recruits at a rate of only 0.01 percent. Unlike the diplomatic corps in China, for example, in which officers are recruited according to need, a fixed number of Indians are admitted into the foreign service each year. And unlike in the United States, in India, the most significant ambassadorial and foreign policy jobs are usually filled by career civil servants rather than political appointees.

Once they survive the cut-throat admissions process, the foreign service officers go on to serve as key advisers in the prime minister's office, on the National Security Council, and at the foreign ministry. They also tend to hold the most powerful positions within these bodies: the foreign secretary, the administrative head of the foreign ministry, is always a foreign service officer. And three of the four people who have held the position of national security adviser since the post was created in 1998, including the current one, Shivshankar Menon, have been foreign service officers.

The powerful role of the Indian Foreign Service produces a decision-making process that is highly individualistic. Since foreign service officers are considered the crème de la crème of India and undergo extensive training, they are each seen as capable of assuming vast authority. What is more, the service's exclusive admissions policies mean that a tiny cadre of officers must take on large portfolios of responsibility. In addition to their advisory role, they have significant leeway in crafting policy. This autonomy, in turn, means that New Delhi does very little collective thinking about its long-term foreign policy goals, since most of the strategic planning that takes place within the government happens on an individual level.

My interviews with top officials revealed that there are few, if any, top-down guidelines for the making of Indian foreign policy. The senior official who has dealt with Western countries told me, "We have a great deal of flexibility and autonomy in shaping policy on a day-to-day basis within the overarching framework of policy." Pressed to explain that framework, the official said, "It is not written anywhere or formalized. . . . It's expressed in speeches and parliamentary statements." After a brief pause, the official admitted with a laugh, "But those damn things are also written by us," referring to the foreign service officers.

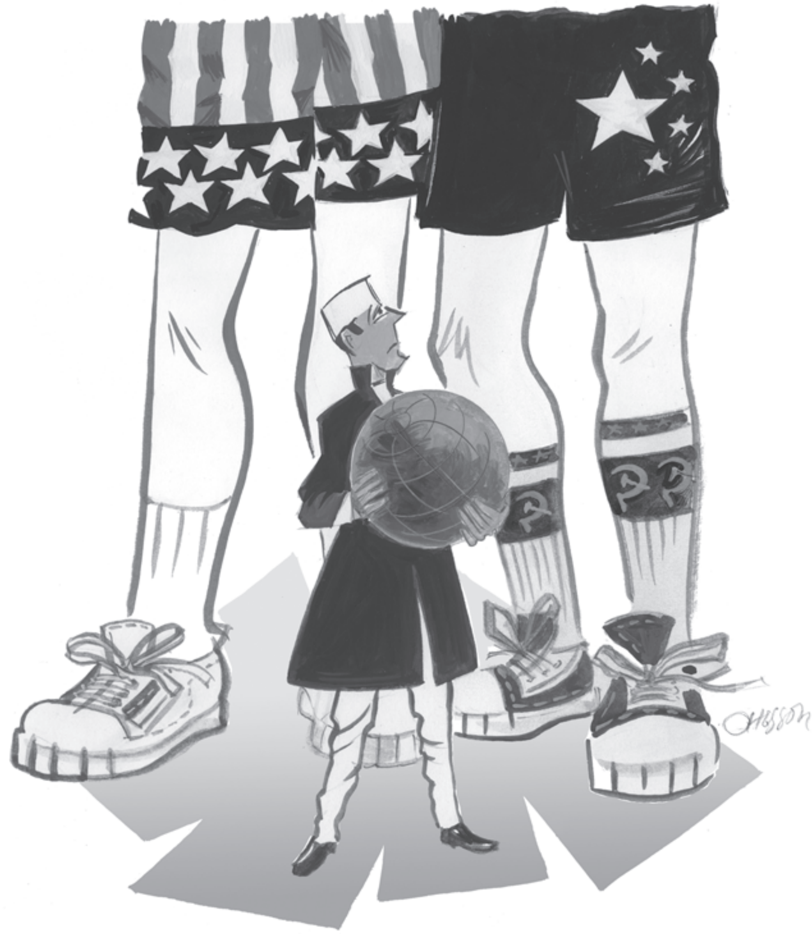
Several current and former ambassadors confirmed this situation, stressing the lack of top-down planning. One ambassador with close links to the national security adviser's office put it this way: "You make up your own goals, which is hugely enjoyable and has impact. But it would be nice to have direction from time to time." A former ambassador to several European countries agreed, saying, "I could never find any direction or any paper from the foreign office to tell me what India's long-term attitude should be toward country X. Positions are the prerogative of the individual ambassador." Another former ambassador elaborated:

> I was completely autonomous as ambassador. There is little to no instruction from the [prime minister's office], even in cases of major countries. I had to take decisions based on a hunch. I sometimes got very, very broad directives. But I violated virtually all of them. The prime minister was a temperamental man who told me that politically it was suicide and that if it were made public, he would disown me. The fact that I got it right had a lot to do with luck.

Not only do India's foreign service officers wield enormous power; they also enjoy near anonymity of action. The ultimate responsibility for their decisions lies with the political figures in charge: the prime minister and the foreign minister. They must play the tricky game of persuading the political leadership to accept their decisions, resulting in a bottom-up policymaking process. As Jaswant Singh, a former foreign minister, explained, "If a [foreign] minister has the skills to command the respect of the [foreign ministry's] officers, he will make policy and implement it. Otherwise, it is the civil servants who make the policy and the minister is simply the figurehead."

This lack of top-down instruction means that long-term planning is virtually impossible. Many of the officials I interviewed confirmed that India produces no internal documents or white papers on grand strategy. Moreover, newly minted ambassadors are given very loose guidelines and little background information about their regions of responsibility, and they are not required to produce reports on their goals.

Other factors contribute to the lack of long-term planning. The foreign service's exclusive admissions policies leave New Delhi short-staffed in that arena, and overburdened foreign service officers have little time or inclination for strategic thinking. As the ambassador with ties to the national security adviser's office told me, "It's hard for people to focus on a long-term strategy because they deal with day-to-day thinking." Officials at both the foreign ministry and the prime minister's office described their roles as too often consisting of either putting out fires or getting bogged down with the mundane, and they expressed concerns about the shortage of personnel. Moreover, the two departments within the foreign ministry that are supposedly meant to handle long-term strategizing, the Policy, Planning, Research Division and the Public



Diplomacy Division, are widely seen as lacking clout.

The absence of grand strategic thinking in the Indian foreign policy establishment is amplified by the lack of influential think tanks in the country. Not only is the foreign service short-staffed, but its officers do not turn to external institutions for in-depth research or analysis of the country's position. U.S. foreign-policy makers, by contrast, can expect strategic guidance from a broad spectrum of organizations that supplement the long-term planning that happens within the government itself. But in India, there are very few policy-oriented research institutions that focus on international relations. Those that do are often private organizations funded by large corporations, so they inevitably focus chiefly on trade issues. Even when Indian think tanks house retired foreign service officers and ambassadors—who often have access to senior government officials—they are still not seen by the government as useful sources of advice. This is true even for India's best-known think tanks, including the Centre for Policy Research, which houses first-rate experts, and the Ministry of Defense–funded Institute for Defence Studies and Analyses.

When asked whether policymakers ever consult with think tanks, the senior official who has experience working with Western countries replied, "It is very different from the United States. . . . I sometimes talk to individuals [at think tanks] but on a personal basis—the problem is think tanks don't have much information or access to government information." Another official who has worked in the foreign ministry similarly stated, "We just don't have that kind of intellectual input yet. We recognize that we can't become a superpower without it." This lack of consultation stands in sharp contrast to the situation in China, where regular interaction among the government, intellectuals, and think tanks results in prolific debates about the domestic and international ramifications of the country's rise.

Countries that aspire to great-power status usually look beyond tactical challenges, imagine a world that best suits their interests, and work to make that vision a reality. The problem for New Delhi is that its foreign policy apparatus is not yet designed to do that. India's inability to develop top-down, long-term strategies means that it cannot systematically consider the implications of its growing power. So long as this remains the case, the country will not play the role in global affairs that many expect.

EXPECTATIONS GAME

Although perhaps flattering to Indian officials, the international discourse on India's rise also makes them deeply uneasy. This is because it risks raising expectations—for the Indian economy to grow at a pace that is simply not achievable and for New Delhi to take on an international leadership role that it does not want to assume.

Several of the officials I interviewed referred to the fiasco of the Bharatiya Janata Party's 2004 "India Shining" campaign as an example of this liability. During the 2004 national elections, the ruling BJP campaigned on the successes of the Indian economy, all but ignoring the daily struggles of the vast majority of the population without access to basic services. The BJP's subsequent trouncing served as a cautionary tale to Indian leaders about prematurely promoting their country's emergence. Now, as the ambassador who is close to the national security adviser's office pointed out, "The prime minister does not have one speech where he talks about the rise of India but not about [the need for] growth." To be successful, Indian politicians need to spend more time focusing on domestic issues and the economy than on trumpeting their foreign policy clout.

New Delhi's caution about raising expectations is tied to its fear that a growing India might have to take on responsibilities commensurate with its power. Officials who have worked with the foreign ministry and the prime minister's office told me that the disadvantage of the international discourse on India's rise was that the West, particularly the United States, might pressure India to step up its global commitments. India might have to abandon its status as a developing country and could be forced to make concessions on environmental issues, such as limiting its carbon emissions, and on trade, such as opening up the Indian market further to U.S. exports. India has not adequately thought through what its growing clout will mean in terms of assuming global leadership.

This fact has had significant bearing on New Delhi's foreign policy, and it

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should be taken into account by other countries when they consider how to approach India. India's discomfort with the idea that great power brings great responsibility means that the United States and other Western countries must be cautious about asking India to assume a larger international role. New Delhi is not likely to take the lead on climate change or support ambitious humanitarian interventions. Nor will it eagerly sign on to efforts to bring down barriers to global trade—after all, India still sees itself as a developing country that needs to rely on protectionism to nurture its infant industries. And despite India's tense relations with China and its pride in being a democracy, New Delhi will be wary of Washington's efforts to impose on it the status and the burdens of acting as a liberal counterweight to an authoritarian China.

New Delhi's strategic thinking may be strengthened by the recently proposed expansion of the Indian Foreign Service, the growing number of Indian think tanks, and the increasing interest of the Indian diaspora—which has come to play a large role in New Delhi's economic diplomacy—in Indian foreign policy. In the meantime, if the West wants India to play a larger international role, it needs to offer the country concrete incentives and assurances that discussions of its rise are not simply excuses to force it to make concessions. By supporting India's long-standing desire to join the UN Security Council as a permanent member, for example, the international community can signal that it wants to both empower India and give it a greater say in world affairs. India might eventually find that although global leadership can be a burden, it also has its benefits.

The Real Story Behind Executive Pay

The Myth of Crony Capitalism

Steven N. Kaplan

As the share of income taken home by top earners in the United States has risen over the past few decades, so, too, has popular concern about economic inequality—something the Occupy Wall Street movement loudly reminded Americans about in 2011. Much of the outrage has centered on the compensation of the United States' top corporate executives, who are said to be taking home ever-fatter paychecks, while the incomes of lower-level employees have stagnated. "American workers are having to make do with less," an AFL-CIO official complained to *The New York Times* last year, "while C.E.O.s have never had it better." (Europeans have also gotten worked up over these issues, with the EU proposing rules that would cap bankers' bonuses.)

Part of the problem, allegedly, is that the corporate boards that determine CEOs' pay packages have severed the link between salary and achievement. Lucian Bebchuk and Jesse Fried, authors of the 2004 book *Pay Without Performance*, conclude that "flawed compensation arrangements have not been limited to a small number of 'bad apples'; they have been widespread, persistent, and systemic." Mihir Desai of Harvard Business School has claimed that skewed incentives for executives have fueled "the twin crises of modern American capitalism: repeated governance failures . . . and rising income inequality."

Scholars such as these argue that although CEOs are in theory beholden to the boards that hire and fire them, often the reverse is true, with directors striking sweetheart deals to stay in the good graces of powerful executives. If only corporate boards broke free from their executive captors, the logic goes, CEOs would get a taste of accountability, their pay would return to earth, and the growing gap between the rich and the poor could begin to narrow.

But the reality of executive compensation reveals a far different picture from this caricature of skyrocketing pay packages and crony capitalism. In fact, although their incomes rose dramatically over the twentieth century, CEOs of U.S. public companies have seen their pay fall, not rise, for the past ten-plus years. Moreover, they are penalized for bad results, with their pay tracking their companies' stock performance. And boards do monitor performance; executives of companies with sliding stock prices now face a much greater risk of getting fired than they did in years past.

It is impossible to deny that the United States' corporate executives are paid handsomely. And there have been high-profile examples of overly generous boards. Yet the idea that CEOs' high incomes are primarily the product of

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A room with a view: businessmen watching the Occupy Wall Street protests, May 2012

REUTERS / MIKE SEGAR

failures of corporate governance is a myth. Rather, CEOs of public companies have benefited from an increasingly remunerative market for top talent. As technology has improved and companies have grown larger and more efficient, incomes among the country's other top earners—private-company executives, corporate lawyers, hedge fund managers, and investors—have also risen. In other words, high incomes in the United States, and the accompanying inequality, stem from broader market forces, not from quirks or imperfections in the U.S. corporate governance system. Attempts to reduce top executive pay through additional regulation will only risk driving skilled public-company executives to apply their talents elsewhere.

THE COMPENSATION MYTH

From 1936 to 2000, the CEOs of large public companies saw their average inflation-adjusted pay increase almost 19-fold. I recently asked a group of chief financial officers for public companies, a group of large institutional investors in public companies, and a group of corporate governance academics what they thought had happened to average CEO pay since 2000. Over 60 percent of each group said that pay had continued to go up, and less than 30 percent said that it had stayed flat. Less than ten percent of each group believed that pay had declined.

Yet it had. As the figure on page 22 shows, from 2000 to 2010, the boards of S&P 500 companies—the largest publicly traded U.S. corporations—decreased the average amount they awarded their CEOs by 46 percent. Over the same period, average pay converged with median pay, which stayed roughly flat—up eight percent from 2000, but down seven percent from 2001. (These figures represent "estimated" pay, which includes the hypothetical value of the

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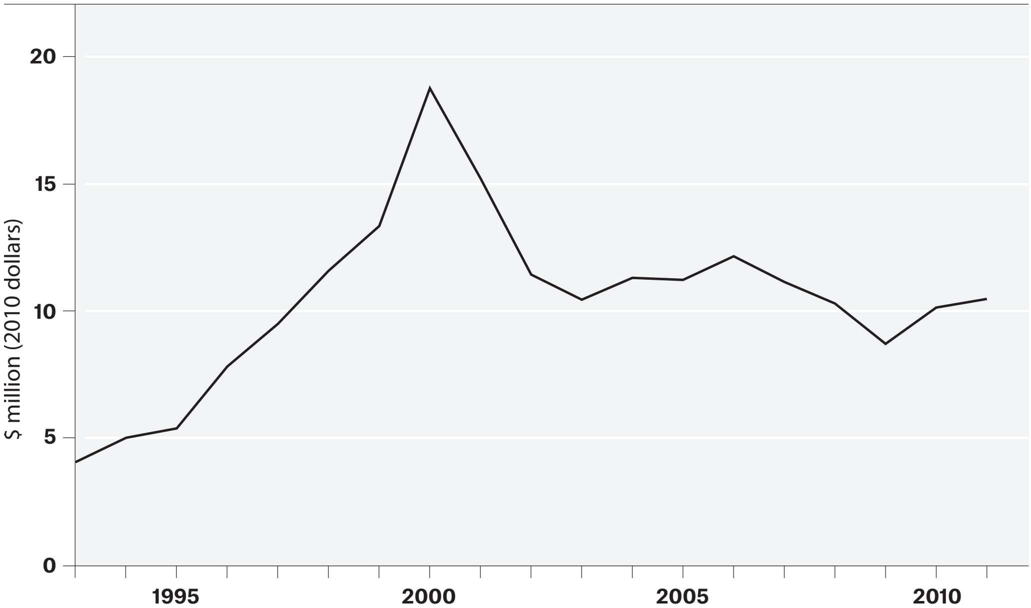
The Myth of Ever-Increasing Compensation

Average Estimated Pay for S&P 500 CEOs



SOURCE: ExecuComp.

stock options issued to the CEOs at the time they were granted. In other words, they measure how much a board intended to compensate its chief executive.) The story is similar outside the S&P 500. Average CEO pay among more than 1,000 smaller public companies also increased in the 1990s and declined in the decade afterward, likewise falling closer in line with median pay.

The convergence between mean and median pay suggests that since 2000, boards have become far less likely to award unusually large pay packages. Some executives do earn gargantuan sums; in 2010, for example, three CEOs of S&P 500 companies—Philippe Dauman of Viacom, Larry Ellison of Oracle, and Leslie Moonves of CBS—received over $50 million each. But these cases are the exception rather than the rule.

That said, although CEO pay has recently fallen, it remains very high in an absolute sense. In 2010, the average S&P 500 CEO took home more than $10 million, roughly 200 times the income of a typical U.S. household. Especially since the 1990s, CEOs have done extremely well for themselves. The important question is, why?

The most compelling answer involves market forces, not corrupt corporate boards. Specifically, improvements in technology and the growth in the size of firms and the scale of finance have allowed more talented people to increase their productivity relative to others. The larger the company, the greater the returns to hiring a productive CEO. And as firms have become more valuable, boards have responded by spending more to attract talent that can affect that value.

That story checks out when comparing companies' market value to the pay their CEOs receive. Ever since the late 1970s, the ratio of the average pay of CEOs of large public companies to the average market value of those companies has stayed relatively constant: CEO pay has grown hand in hand with corporations.

THE RISE OF THE REST

For further proof of this theory of market-driven CEO compensation, consider what has happened to the incomes of other well-paid people. If a broken corporate governance system were to blame for the long-term rise in executives' pay, then one would expect the pay for all top earners—the vast majority of whom are not public-company CEOs and thus do not necessarily have their incomes determined by boards—to have grown more slowly than that of public-company CEOs.

Yet over the past 30 years, incomes for that broader group have also risen, meaning that the CEOs of the biggest companies have seen little change in their pay relative to that of other top earners. In 2010, the average S&P 500 CEO made about twice as much as the average person in the top 0.1 percent of U.S. taxpayers—about the same ratio as in 1994. CEOs of smaller public companies, for their part, have actually done worse over time, earning less relative to the top 0.1 percent than they did in the early 1990s. Looking even further back in time, the same pattern of stable relative incomes holds true. In 2007, CEOs of large public companies were making roughly the same amount relative to the top 0.1 percent as they were in the late 1930s, when the problems of corporate governance said to drive CEO pay today were presumably less acute.

A comparison of private- and public-company CEOs offers more evidence that overly generous boards are not to blame for high pay packages. Executives of private companies should possess similar skills and come from similar pools as executives of public companies, yet they are different in one important way: because private companies are controlled by large shareholders, the boards that pay their CEOs have a greater stake in the companies' success. Thus, they should be less subject to any skewed incentives that supposedly inflate CEO pay when it is determined by public-company boards, the directors of which may own some, but not much, stock. Yet the incomes of private-company executives have actually risen faster than those of public-company executives.

Lawyers at top law firms offer another useful comparison group. Much of the work they perform is for corporate clients, and because the general counsels of large public companies are often former law partners, there is some overlap in the market for talent between top executives and top lawyers. Law firms are partnerships, and their fees are negotiated with outside clients, so partner pay is undoubtedly market-based; there is no captive board of directors that can be blamed for it. Yet like CEO pay, the average profits per partner at the top 50 law firms increased markedly from 1994 to 2010, from $0.7 million (in 2010 dollars) to almost $1.6 million. In fact, over the same period, the pay for top law partners rose faster than did that for public-company CEOs.

Hedge fund managers compose another highly paid group. Since 2001, *Institutional Investor's Alpha* magazine has published an annual list of the 25 highest-paid hedge fund managers, estimating how much they earned from fees and from the capital they invested in their funds. Although the inclusion of their investment income causes the figures to overstate how much of these managers' income derived from their employment per se, the trends are striking. Their average income (in 2010 dollars) grew from $134 million in 2002 to a peak of over $1 billion in 2007—roughly a hundred times as much as that of the average S&P 500 CEO.

The point of these comparisons is to show that although public-company CEOs earn a great deal, they are far from unique. Members of other groups with similar backgrounds and skills, in fields where a competitive market for talent exists and where the mechanics of awarding pay are different, have also experienced substantial pay increases. If one points to higher CEO pay as evidence that executives have captured boards, then one must also explain why other professional groups are getting paid more, too. Instead, the more likely story is that market forces affecting the broader corporate world are at work. Technological advances have allowed lawyers to do more work faster and on bigger deals, investors to trade large amounts more efficiently, and CEOs to better manage large global organizations. And as firms have grown larger, so, too, have the returns for leading them.

PAYING FOR PERFORMANCE

Another popular myth alleges that not only do CEOs receive exorbitant pay, but they do so even when they are failing. According to this story, corporate boards are again to blame, overpaying and underfiring. Once again, however, the evidence fails to support this notion.

To test whether public-company CEOs are paid for performance, the economist Joshua Rauh and I asked whether chief executives who run companies that perform better relative to their industry peers earn more than those whose companies perform worse. (We looked at "realized" pay, which includes actual option gains, not theoretical ones. This measure is more appropriate here because a firm's actual performance determines the value of the options.) Analyzing some 1,700 firms, we found that compensation was highly related to performance: the companies that paid their CEOs the most saw their stocks do the best, and those that paid the least saw their stocks do the worst.

Performance-based payment also explains why U.S. CEOs earn about twice as much as their foreign counterparts. Some critics of CEO pay have pointed to that gap as evidence of the United States' failed corporate governance system, but it is more properly understood as the product of the country's greater reliance on equity-based pay. A comparative study by Nuno Fernandes, Miguel Ferreira, Pedro Matos, and Kevin Murphy concluded that, controlling for individual firm characteristics, "the U.S. pay premium is economically modest and primarily reflects the performance-based pay demanded by institutional shareholders and independent boards."

Boards also hold CEOs accountable in another way: by firing them. In fact, research shows they are resorting to this punishment more frequently. Before 1998, the average S&P 500 CEO could expect to stay on the job for roughly eight years; since then, the number has dropped to six. The job of CEO has become riskier over time, in other words—a change that offsets some of the benefits of higher pay. Thus, the true increase in CEO pay since the early 1990s is arguably smaller than compensation figures alone imply, since CEOs are earning that money over shorter time spans.

Moreover, CEO turnover has become increasingly tied to poor stock performance, suggesting that U.S. corporations have gotten better at monitoring their executives. The economists Dirk Jenter and Katharina Lewellen examined CEO turnover from 1992 to 2004. They found that in the first five years of their tenure, CEOs whose companies performed in the bottom quintile among their industry peers were almost four times as likely to lose their jobs as CEOs whose companies performed in the top quintile. Among companies with especially independent boards and directors who had greater stock ownership, CEOs whose companies performed in the bottom quintile were eight times as likely to lose their jobs. As the authors concluded, "Boards aggressively fire CEOs for poor performance."

It would be worth knowing whether shareholders think CEOs are unjustly rewarded. Fortunately, the Dodd-Frank Act of 2010 mandated that most publicly traded firms hold nonbinding shareholder votes on the compensation of their top five executives. Supporters of this "say on pay" provision contended that the votes would act as a check against outrageous pay and hold CEOs more accountable. The act thus set up a useful test, pitting the view that compensation is largely determined by market forces against the view that it is a function of boards' outsized generosity.

The results? Shareholders have overwhelmingly backed existing pay policies. In 2012, an impressive 97 percent of the companies required to hold these votes received the support of over 50 percent of their shareholders, and 72 percent received above 90 percent support. If executive compensation were the product of captured boards, then one would expect far more investor outrage.

It should not be surprising that shareholders tend to approve of the pay packages that their executives receive: corporate America has weathered the recession well. Although the S&P 500 index has only recently begun to near its peak of 1,576 in 2007, after falling precipitously in 2008, the median operating margins of S&P 500 companies have actually grown since then. Nonfinancial companies in the S&P 500 have done even better, and nationwide, corporate profits as a fraction of GDP have reached historically high levels. In other words, at the same time that CEOs' compensation has fallen, the average operating performance of their companies has actually improved—the opposite of what one would expect in a world of boards gone wild.

COMPETING FOR TALENT

Judging by the perceptions of the media, investors, and even experts on corporate governance, one might naturally assume that the United States' public-company executives are getting large and undeserved raises. But as a careful parsing of the available data suggests, the opposite appears to be true: over the past decade, they have seen their pay slip in real terms, and they are increasingly rewarded for good performance and penalized for poor performance.

Regardless of their resemblance to reality, however, the misperceptions matter. Because executives earn far, far more than the median household, and because there have been some egregious cases of poor corporate governance, boards now face intense political and popular pressure to reduce the amount they pay their CEOs—especially given that the economy is still moving sluggishly. The upside of this scrutiny is that it will likely further reduce outliers and further increase pay for performance.

At the same time, the market for executive talent is putting ever more pressure on boards to attract and retain their top employees with competitive pay packages. Boards are caught in the middle, forced to choose between soothing public outrage and holding on to the people responsible for the success of their companies. To the extent that boards choose not to respond to market pressures, the better public-company executives are likely to move to private companies, particularly those funded by private equity investors, who are happy to pay for talent when talent adds value.

Americans are understandably worried about economic inequality, but CEOs' salaries have not been the driver of that inequality. Rather, they have been buoyed by the same forces that have increased pay for others. Policymakers who want to narrow the gap between the rich and the poor by regulating corporations are likely to be disappointed and could even do unintended damage by undermining the ability of top public companies—important engines of the American economy—to attract and retain the best people.

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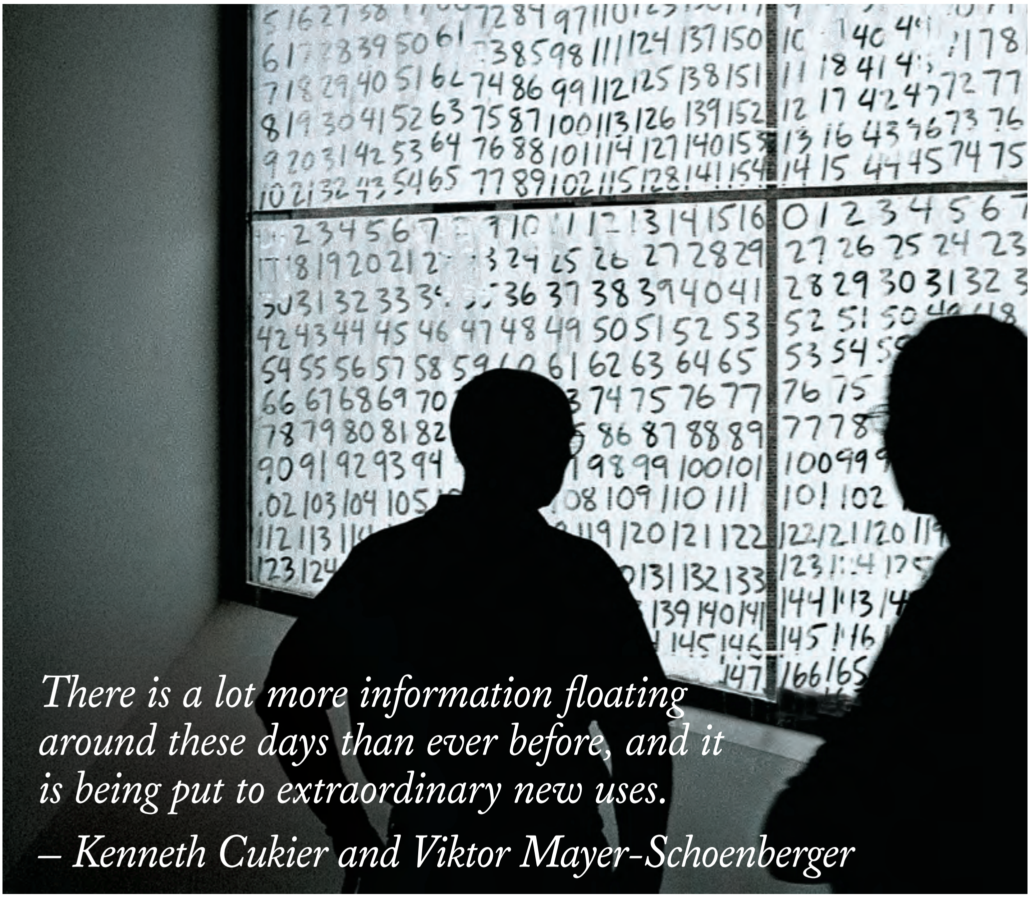
ESSAYS



There is a lot more information floating around these days than ever before, and it is being put to extraordinary new uses.
– Kenneth Cukier and Viktor Mayer-Schoenberger

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The Rise of Big Data

How It's Changing the Way We Think About the World

Kenneth Cukier and Viktor Mayer-Schoenberger

Everyone knows that the Internet has changed how businesses operate, governments function, and people live. But a new, less visible technological trend is just as transformative: "big data." Big data starts with the fact that there is a lot more information floating around these days than ever before, and it is being put to extraordinary new uses. Big data is distinct from the Internet, although the Web makes it much easier to collect and share data. Big data is about more than just communication: the idea is that we can learn from a large body of information things that we could not comprehend when we used only smaller amounts.

In the third century BC, the Library of Alexandria was believed to house the sum of human knowledge. Today, there is enough information in the world to give every person alive 320 times as much of it as historians think was stored in Alexandria's entire collection—an estimated 1,200 exabytes' worth. If all this information were placed on CDs and they were stacked up, the CDs would form five separate piles that would all reach to the moon.

This explosion of data is relatively new. As recently as the year 2000, only one-quarter of all the world's stored information was digital. The rest was preserved on paper, film, and other analog media. But because the amount of digital data expands so quickly—doubling around

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every three years—that situation was swiftly inverted. Today, less than two percent of all stored information is nondigital.

Given this massive scale, it is tempting to understand big data solely in terms of size. But that would be misleading. Big data is also characterized by the ability to render into data many aspects of the world that have never been quantified before; call it "datafication." For example, location has been datafied, first with the invention of longitude and latitude, and more recently with GPS satellite systems. Words are treated as data when computers mine centuries' worth of books. Even friendships and "likes" are datafied, via Facebook.

This kind of data is being put to incredible new uses with the assistance of inexpensive computer memory, powerful processors, smart algorithms, clever software, and math that borrows from basic statistics. Instead of trying to "teach" a computer how to do things, such as drive a car or translate between languages, which artificial-intelligence experts have tried unsuccessfully to do for decades, the new approach is to feed enough data into a computer so that it can infer the probability that, say, a traffic light is green and not red or that, in a certain context, *lumière* is a more appropriate substitute for "light" than *léger*.

Using great volumes of information in this way requires three profound changes in how we approach data. The first is to collect and use a lot of data rather than settle for small amounts or samples, as statisticians have done for well over a century. The second is to shed our preference for highly curated and pristine data and instead accept messiness: in an increasing number of situations, a bit of inaccuracy can be tolerated, because the benefits of using vastly more data of variable quality outweigh the costs of using smaller amounts of very exact data. Third, in many instances, we will need to give up our quest to discover the cause of things, in return for accepting correlations. With big data, instead of trying to understand precisely why an engine breaks down or why a drug's side effect disappears, researchers can instead collect and analyze massive quantities of information about such events and everything that is associated with them, looking for patterns that might help predict future occurrences. Big data helps answer what, not why, and often that's good enough.

The Internet has reshaped how humanity communicates. Big data is different: it marks a transformation in how society processes information. In time, big data might change our way of thinking about the world. As we tap ever more data to understand events and make decisions, we are likely to discover that many aspects of life are probabilistic, rather than certain.

APPROACHING "N = ALL"

For most of history, people have worked with relatively small amounts of data because the tools for collecting, organizing, storing, and analyzing information were poor. People winnowed the information they relied on to the barest minimum so that they could examine it more easily. This was the genius of modern-day statistics, which first came to the fore in the late nineteenth century and enabled society to understand complex realities even when little data existed. Today, the technical environment has shifted 179 degrees. There still is, and always will be, a constraint on how much data we can manage, but it is far less limiting than it used to be and will become even less so as time goes on.

The way people handled the problem of capturing information in the past was through sampling. When collecting data was costly and processing it was difficult and time consuming, the sample was a savior. Modern sampling is based on the idea that, within a certain margin of error, one can infer something about the total population from a small subset, as long the sample is chosen at random. Hence, exit polls on election night query a randomly selected group of several hundred people to predict the voting behavior of an entire state. For straightforward questions, this process works well. But it falls apart when we want to drill down into subgroups within the sample. What if a pollster wants to know which candidate single women under 30 are most likely to vote for? How about university-educated, single Asian American women under 30? Suddenly, the random sample is largely useless, since there may be only a couple of people with those characteristics in the sample, too few to make a meaningful assessment of how the entire subpopulation will vote. But if we collect all the data—"*n* = all," to use the terminology of statistics—the problem disappears.

This example raises another shortcoming of using some data rather than all of it. In the past, when people collected only a little data, they often had to decide at the outset what to collect and how it would be used. Today, when we gather all the data, we do not need to know beforehand what we plan to use it for. Of course, it might not always be possible to collect all the data, but it is getting much more feasible to capture vastly more of a phenomenon than simply a sample and to aim for all of it. Big data is a matter not just of creating somewhat larger samples but of harnessing as much of the existing data as possible about what is being studied. We still need statistics; we just no longer need to rely on small samples.

There is a tradeoff to make, however. When we increase the scale by orders of magnitude, we might have to give up on clean, carefully curated data and tolerate some messiness. This idea runs counter to how people have tried to work with data for centuries. Yet the obsession with accuracy and precision is in some ways an artifact of an information-constrained environment. When there was not that much data around, researchers had to make sure that the figures they bothered to collect were as exact as possible. Tapping vastly more data means that we can now allow some inaccuracies to slip in (provided the data set is not completely incorrect), in return for benefiting from the insights that a massive body of data provides.

Consider language translation. It might seem obvious that computers would translate well, since they can store lots of information and retrieve it quickly. But if one were to simply substitute words from a French-English dictionary, the translation would be atrocious. Language is complex. A breakthrough came in the 1990s, when IBM delved into statistical machine translation. It fed Canadian parliamentary transcripts in both French and English into a computer and programmed it to infer which word in one language is the best alternative for another. This process changed the task of translation into a giant problem of probability and math. But after this initial improvement, progress stalled.

Then Google barged in. Instead of using a relatively small number of high-quality translations, the search giant harnessed more data, but from the less orderly Internet—"data in the wild," so to speak. Google inhaled translations from corporate websites, documents in every language from the European Union, even translations from its giant book-scanning project. Instead of millions of pages of texts, Google analyzed billions. The result is that its translations are quite good—better than IBM's were—and cover 65 languages. Large amounts of messy data trumped small amounts of cleaner data.

FROM CAUSATION TO CORRELATION

These two shifts in how we think about data—from some to all and from clean to messy—give rise to a third change: from causation to correlation. This represents a move away from always trying to understand the deeper reasons behind how the world works to simply learning about an association among phenomena and using that to get things done.

Of course, knowing the causes behind things is desirable. The problem is that causes are often extremely hard to figure out, and many times, when we think we have identified them, it is nothing more than a self-congratulatory illusion. Behavioral economics has shown that humans are conditioned to see causes even where none exist. So we need to be particularly on guard to prevent our cognitive biases from deluding us; sometimes, we just have to let the data speak.

Take UPS, the delivery company. It places sensors on vehicle parts to identify certain heat or vibrational patterns that in the past have been associated with failures in those parts. In this way, the company can predict a breakdown before it happens and replace the part when it is convenient, instead of on the side of the road. The data do not reveal the exact relationship between the heat or the vibrational patterns and the part's failure. They do not tell UPS why the part is in trouble. But they reveal enough for the company to know what to do in the near term and guide its investigation into any underlying problem that might exist with the part in question or with the vehicle.

We can learn from a large body of information things that we could not comprehend when we used only smaller amounts.

A similar approach is being used to treat breakdowns of the human machine. Researchers in Canada are developing a big-data approach to spot infections in premature babies before overt symptoms appear. By converting 16 vital signs, including heartbeat, blood pressure, respiration, and blood-oxygen levels, into an information flow of more than 1,000 data points per second, they have been able to find correlations between very minor changes and more serious problems. Eventually, this technique will enable doctors to act earlier to save lives. Over time, recording these observations might also allow doctors to understand what actually causes such problems. But when a newborn's health is at risk, simply knowing that something is likely to occur can be far more important than understanding exactly why.

Medicine provides another good example of why, with big data, seeing correlations can be enormously valuable, even when the underlying

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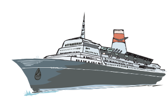

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causes remain obscure. In February 2009, Google created a stir in health-care circles. Researchers at the company published a paper in *Nature* that showed how it was possible to track outbreaks of the seasonal flu using nothing more than the archived records of Google searches. Google handles more than a billion searches in the United States every day and stores them all. The company took the 50 million most commonly searched terms between 2003 and 2008 and compared them against historical influenza data from the Centers for Disease Control and Prevention. The idea was to discover whether the incidence of certain searches coincided with outbreaks of the flu—in other words, to see whether an increase in the frequency of certain Google searches conducted in a particular geographic area correlated with the CDC's data on outbreaks of flu there. The CDC tracks actual patient visits to hospitals and clinics across the country, but the information it releases suffers from a reporting lag of a week or two—an eternity in the case of a pandemic. Google's system, by contrast, would work in near-real time.

Google did not presume to know which queries would prove to be the best indicators. Instead, it ran all the terms through an algorithm that ranked how well they correlated with flu outbreaks. Then, the system tried combining the terms to see if that improved the model. Finally, after running nearly half a billion calculations against the data, Google identified 45 terms—words such as "headache" and "runny nose"—that had a strong correlation with the CDC's data on flu outbreaks. All 45 terms related in some way to influenza. But with a billion searches a day, it would have been impossible for a person to guess which ones might work best and test only those.

Moreover, the data were imperfect. Since the data were never intended to be used in this way, misspellings and incomplete phrases were common. But the sheer size of the data set more than compensated for its messiness. The result, of course, was simply a correlation. It said nothing about the reasons why someone performed any particular search. Was it because the person felt ill, or heard sneezing in the next cubicle, or felt anxious after reading the news? Google's system doesn't know, and it doesn't care. Indeed, last December, it seems that Google's system may have overestimated the number of flu cases in the United States. This serves as a reminder that predictions are only probabilities and are not always correct, especially when the basis for the prediction—Internet searches—is in a constant state of change and vulnerable to outside influences, such as media reports. Still, big data can hint at the general direction of an ongoing development, and Google's system did just that.

BACK-END OPERATIONS

Many technologists believe that big data traces its lineage back to the digital revolution of the 1980s, when advances in microprocessors and computer memory made it possible to analyze and store ever more information. That is only superficially the case. Computers and the Internet certainly aid big data by lowering the cost of collecting, storing, processing, and sharing information. But at its heart, big data is only the latest step in humanity's quest to understand and quantify the world. To appreciate how this is the case, it helps to take a quick look behind us.

Appreciating people's posteriors is the art and science of Shigeomi Koshimizu, a professor at the Advanced Institute of Industrial Technology in Tokyo. Few would think that the way a person sits constitutes information, but it can. When a person is seated, the contours of the body, its posture, and its weight distribution can all be quantified and tabulated. Koshimizu and his team of engineers convert backsides into data by measuring the pressure they exert at 360 different points with sensors placed in a car seat and by indexing each point on a scale of zero to 256. The result is a digital code that is unique to each individual. In a trial, the system was able to distinguish among a handful of people with 98 percent accuracy.

The research is not asinine. Koshimizu's plan is to adapt the technology as an antitheft system for cars. A vehicle equipped with it could recognize when someone other than an approved driver sat down behind the wheel and could demand a password to allow the car to function. Transforming sitting positions into data creates a viable service and a potentially lucrative business. And its usefulness may go far beyond deterring auto theft. For instance, the aggregated data might reveal clues about a relationship between drivers' posture and road safety, such as telltale shifts in position prior to accidents. The system might also be able to sense when a driver slumps slightly from fatigue and send an alert or automatically apply the brakes.

Koshimizu took something that had never been treated as data—or even imagined to have an informational quality—and transformed it into a numerically quantified format. There is no good term yet for this sort of transformation, but "datafication" seems apt. Datafication is not the same as digitization, which takes analog content—books, films, photographs—and converts it into digital information, a sequence of ones and zeros that computers can read. Datafication is a far broader activity: taking all aspects of life and turning them into data. Google's augmented-reality glasses datafy the gaze. Twitter datafies stray thoughts. LinkedIn datafies professional networks.

Once we datafy things, we can transform their purpose and turn the information into new forms of value. For example, IBM was granted a U.S. patent in 2012 for "securing premises using surface-based computing technology"—a technical way of describing a touch-sensitive floor covering, somewhat like a giant smartphone screen. Datafying the floor can open up all kinds of possibilities. The floor could be able to identify the objects on it, so that it might know to turn on lights in a room or open doors when a person entered. Moreover, it might identify individuals by their weight or by the way they stand and walk. It could tell if someone fell and did not get back up, an important feature for the elderly. Retailers could track the flow of customers through their stores. Once it becomes possible to turn activities of this kind into data that can be stored and analyzed, we can learn more about the world—things we could never know before because we could not measure them easily and cheaply.

BIG DATA IN THE BIG APPLE

Big data will have implications far beyond medicine and consumer goods: it will profoundly change how governments work and alter the nature of politics. When it comes to generating economic growth, providing public services, or fighting wars, those who can harness big data effectively will enjoy a significant edge over others. So far, the most exciting work is happening at the municipal level, where it is easier to access data and to experiment with the information. In an effort spearheaded by New York City Mayor Michael Bloomberg (who made a fortune in the data business), the city is using big data to improve public services and lower costs. One example is a new fire-prevention strategy.

Illegally subdivided buildings are far more likely than other buildings to go up in flames. The city gets 25,000 complaints about overcrowded buildings a year, but it has only 200 inspectors to respond. A small team of analytics specialists in the mayor's office reckoned that big data could help resolve this imbalance between needs and resources. The team created a database of all 900,000 buildings in the city and augmented it with troves of data collected by 19 city agencies: records of tax liens, anomalies in utility usage, service cuts, missed payments, ambulance visits, local crime rates, rodent complaints, and more. Then, they compared this database to records of building fires from the past five years, ranked by severity, hoping to uncover correlations. Not surprisingly, among the predictors of a fire were the type of building and the year it was built. Less expected, however, was the finding that buildings obtaining permits for exterior brickwork correlated with lower risks of severe fire.

Using big data will sometimes mean forgoing the quest for why in return for knowing what.

Using all this data allowed the team to create a system that could help them determine which overcrowding complaints needed urgent attention. None of the buildings' characteristics they recorded caused fires; rather, they correlated with an increased or decreased risk of fire. That knowledge has proved immensely valuable: in the past, building inspectors issued vacate orders in 13 percent of their visits; using the new method, that figure rose to 70 percent—a huge efficiency gain.

Of course, insurance companies have long used similar methods to estimate fire risks, but they mainly rely on only a handful of attributes and usually ones that intuitively correspond with fires. By contrast, New York City's big-data approach was able to examine many more variables, including ones that would not at first seem to have any relation to fire risk. And the city's model was cheaper and faster, since it made use of existing data. Most important, the big-data predictions are probably more on target, too.

Big data is also helping increase the transparency of democratic governance. A movement has grown up around the idea of "open data," which goes beyond the freedom-of-information laws that are now commonplace in developed democracies. Supporters call on governments to make the vast amounts of innocuous data that they hold easily available to the public. The United States has been at the forefront, with its Data.gov website, and many other countries have followed.

At the same time as governments promote the use of big data, they will also need to protect citizens against unhealthy market dominance. Companies such as Google, Amazon, and Facebook—as well as lesser-

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known "data brokers," such as Acxiom and Experian—are amassing vast amounts of information on everyone and everything. Antitrust laws protect against the monopolization of markets for goods and services such as software or media outlets, because the sizes of the markets for those goods are relatively easy to estimate. But how should governments apply antitrust rules to big data, a market that is hard to define and that is constantly changing form? Meanwhile, privacy will become an even bigger worry, since more data will almost certainly lead to more compromised private information, a downside of big data that current technologies and laws seem unlikely to prevent.

Regulations governing big data might even emerge as a battleground among countries. European governments are already scrutinizing Google over a raft of antitrust and privacy concerns, in a scenario reminiscent of the antitrust enforcement actions the European Commission took against Microsoft beginning a decade ago. Facebook might become a target for similar actions all over the world, because it holds so much data about individuals. Diplomats should brace for fights over whether to treat information flows as similar to free trade: in the future, when China censors Internet searches, it might face complaints not only about unjustly muzzling speech but also about unfairly restraining commerce.

BIG DATA OR BIG BROTHER?

States will need to help protect their citizens and their markets from new vulnerabilities caused by big data. But there is another potential dark side: big data could become Big Brother. In all countries, but particularly in nondemocratic ones, big data exacerbates the existing asymmetry of power between the state and the people.

The asymmetry could well become so great that it leads to big-data authoritarianism, a possibility vividly imagined in science-fiction movies such as *Minority Report*. That 2002 film took place in a near-future dystopia in which the character played by Tom Cruise headed a "Precrime" police unit that relied on clairvoyants whose visions identified people who were about to commit crimes. The plot revolves around the system's obvious potential for error and, worse yet, its denial of free will.

Although the idea of identifying potential wrongdoers before they have committed a crime seems fanciful, big data has allowed some authorities to take it seriously. In 2007, the Department of Homeland

Security launched a research project called FAST (Future Attribute Screening Technology), aimed at identifying potential terrorists by analyzing data about individuals' vital signs, body language, and other physiological patterns. Police forces in many cities, including Los Angeles, Memphis, Richmond, and Santa Cruz, have adopted "predictive policing" software, which analyzes data on previous crimes to identify where and when the next ones might be committed.

For the moment, these systems do not identify specific individuals as suspects. But that is the direction in which things seem to be heading. Perhaps such systems would identify which young people are most likely to shoplift. There might be decent reasons to get so specific, especially when it comes to preventing negative social outcomes other than crime. For example, if social workers could tell with 95 percent accuracy which teenage girls would get pregnant or which high school boys would drop out of school, wouldn't they be remiss if they did not step in to help? It sounds tempting. Prevention is better than punishment, after all. But even an intervention that did not admonish and instead provided assistance could be construed as a penalty—at the very least, one might be stigmatized in the eyes of others. In this case, the state's actions would take the form of a penalty before any act were committed, obliterating the sanctity of free will.

There will be a special need to carve out a place for the human: to reserve space for intuition, common sense, and serendipity.

Another worry is what could happen when governments put too much trust in the power of data. In his 1999 book, *Seeing Like a State*, the anthropologist James Scott documented the ways in which governments, in their zeal for quantification and data collection, sometimes end up making people's lives miserable. They use maps to determine how to reorganize communities without first learning anything about the people who live there. They use long tables of data about harvests to decide to collectivize agriculture without knowing a whit about farming. They take all the imperfect, organic ways in which people have interacted over time and bend them to their needs, sometimes just to satisfy a desire for quantifiable order.

This misplaced trust in data can come back to bite. Organizations can be beguiled by data's false charms and endow more meaning to the numbers than they deserve. That is one of the lessons of the Vietnam

War. U.S. Secretary of Defense Robert McNamara became obsessed with using statistics as a way to measure the war's progress. He and his colleagues fixated on the number of enemy fighters killed. Relied on by commanders and published daily in newspapers, the body count became the data point that defined an era. To the war's supporters, it was proof of progress; to critics, it was evidence of the war's immorality. Yet the statistics revealed very little about the complex reality of the conflict. The figures were frequently inaccurate and were of little value as a way to measure success. Although it is important to learn from data to improve lives, common sense must be permitted to override the spreadsheets.

HUMAN TOUCH

Big data is poised to reshape the way we live, work, and think. A worldview built on the importance of causation is being challenged by a preponderance of correlations. The possession of knowledge, which once meant an understanding of the past, is coming to mean an ability to predict the future. The challenges posed by big data will not be easy to resolve. Rather, they are simply the next step in the timeless debate over how to best understand the world.

Still, big data will become integral to addressing many of the world's pressing problems. Tackling climate change will require analyzing pollution data to understand where best to focus efforts and find ways to mitigate problems. The sensors being placed all over the world, including those embedded in smartphones, provide a wealth of data that will allow climatologists to more accurately model global warming. Meanwhile, improving and lowering the cost of health care, especially for the world's poor, will make it necessary to automate some tasks that currently require human judgment but could be done by a computer, such as examining biopsies for cancerous cells or detecting infections before symptoms fully emerge.

Ultimately, big data marks the moment when the "information society" finally fulfills the promise implied by its name. The data take center stage. All those digital bits that have been gathered can now be harnessed in novel ways to serve new purposes and unlock new forms of value. But this requires a new way of thinking and will challenge institutions and identities. In a world where data shape decisions more and more, what purpose will remain for people, or for intuition, or for going against the facts? If everyone appeals to the data and harnesses big-data tools, perhaps what will become the central point of differentiation is unpredictability: the human element of instinct, risk taking, accidents, and even error. If so, then there will be a special need to carve out a place for the human: to reserve space for intuition, common sense, and serendipity to ensure that they are not crowded out by data and machine-made answers.

This has important implications for the notion of progress in society. Big data enables us to experiment faster and explore more leads. These advantages should produce more innovation. But at times, the spark of invention becomes what the data do not say. That is something that no amount of data can ever confirm or corroborate, since it has yet to exist. If Henry Ford had queried big-data algorithms to discover what his customers wanted, they would have come back with "a faster horse," to recast his famous line. In a world of big data, it is the most human traits that will need to be fostered—creativity, intuition, and intellectual ambition—since human ingenuity is the source of progress.

Big data is a resource and a tool. It is meant to inform, rather than explain; it points toward understanding, but it can still lead to misunderstanding, depending on how well it is wielded. And however dazzling the power of big data appears, its seductive glimmer must never blind us to its inherent imperfections. Rather, we must adopt this technology with an appreciation not just of its power but also of its limitations.

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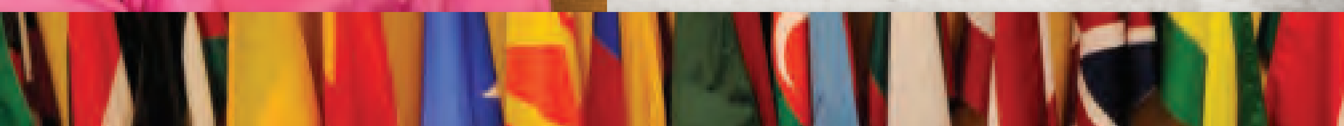

The Austerity Delusion

Why a Bad Idea Won Over the West

Mark Blyth

Unable to take constructive action toward any common end, the U.S. Congress has recently been reduced to playing an ongoing game of chicken with the American economy. The debt-ceiling debacle gave way to the "fiscal cliff," which morphed into the across-the-board cuts in military and discretionary spending known as "sequestration." Whatever happens next on the tax front, further cuts in spending seem likely. And so a modified form of the austerity that has characterized policymaking in Europe since 2010 is coming to the United States as well; the only questions are how big the hit will end up being and who will bear the brunt. What makes all this so absurd is that the European experience has shown yet again why joining the austerity club is exactly the wrong thing for a struggling economy to do.

The eurozone countries, the United Kingdom, and the Baltic states have volunteered as subjects in a grand experiment that aims to find out if it is possible for an economically stagnant country to cut its way to prosperity. Austerity—the deliberate deflation of domestic wages and prices through cuts to public spending—is designed to reduce a state's debts and deficits, increase its economic competitiveness, and restore what is vaguely referred to as "business confidence." The last point is key: advocates of austerity believe that slashing spending spurs private investment, since it signals that the government will neither be crowding out the market for investment with its own stimulus efforts nor be adding to its debt burden. Consumers and producers, the argument goes, will feel confident about the future and will spend more, allowing the economy to grow again.

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In line with such thinking, and following the shock of the recent financial crisis, which caused public debt to balloon, much of Europe has been pursuing austerity consistently for the past four years. The results of the experiment are now in, and they are equally consistent: austerity doesn't work. Most of the economies on the periphery of the eurozone have been in free fall since 2009, and in the fourth quarter of 2012, the eurozone as a whole contracted for the first time ever. Portugal's economy shrank by 1.8 percent, Italy's fell by 0.9 percent, and even the supposed powerhouse of the region, Germany, saw its economy contract by 0.6 percent. The United Kingdom, despite not being in the eurozone, only barely escaped having the developed world's first-ever triple-dip recession.

The only surprise is that any of this should come as a surprise. After all, the International Monetary Fund warned in July 2012 that simultaneous cuts to state spending across interlinked economies during a recession when interest rates were already low would inevitably damage the prospects for growth. And that warning came on top of the already ample evidence that every country that had embraced austerity had significantly more debt than when it started. Portugal's debt-to-GDP ratio increased from 62 percent in 2006 to 108 percent in 2012. Ireland's more than quadrupled, from 24.8 percent in 2007 to 106.4 percent in 2012. Greece's debt-to-GDP ratio climbed from 106 percent in 2007 to 170 percent in 2012. And Latvia's debt rose from 10.7 percent of GDP in 2007 to 42 percent in 2012. None of these statistics even begin to factor in the social costs of austerity, which include unemployment levels not seen since the 1930s in the countries that now make up the eurozone. So why do governments keep on treading this path?

Austerity became and remains the default policy response to the financial crisis in the eurozone for both material and ideological reasons. Materially, this is because there have been few other easily available policy options. Unlike the United States, which was able to bail out its banks in 2008 because it had a central Treasury and a central bank able to accept any sort of collateral it wanted, the EU had to prop up its own failing banking system (which was three times as large and twice as leveraged as the U.S. banking system) with little more than some additional liquidity, spending cuts, and incantations of its "unshakable commitment to the euro." The U.S. banking system has shed its debt and recapitalized, and it is now ready to grow. The EU, given its institutional makeup, has not even been able to start that

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Cutting costs: anti-austerity graffiti in Seville, Spain, November 2012

REUTERS / MARCELO DEL POZO

process. As a result, the eurozone economies continue to contract, in spite of the increasingly dubious promise that confidence is returning.

Ideologically, it is the intuitive appeal of the idea of austerity—of not spending more than you have—that really casts its spell. Understanding how austerity came to be the standard policy in liberal economic thought when states get into trouble can reveal why it is so seductive and so dangerous.

HOLEY WRIT

Austerity is a seductive idea because of the simplicity of its core claim—that you can't cure debt with more debt. This is true as far as it goes, but it does not go far enough. Three less obvious factors undermine the simple argument that countries in the red need to stop spending. The first factor is distributional, since the effects of austerity are felt differently across different levels of society. Those at the bottom of the income distribution lose proportionately more than those at the top, because they rely far more on government services and have little wealth with which to cushion the blows. The 400 richest Americans own more assets than the poorest 150 million; the bottom 15 percent, some 46 million people, live in households earning less than $22,050 per year. Trying to get the lower end of the income distribution to pay the price of austerity through cuts in public spending is both cruel and mathematically difficult. Those who can pay won't, while those who can't pay are being asked to do so.

The second factor is compositional; everybody cannot cut their way to growth at the same time. To put this in the European context, although it makes sense for any one state to reduce its debt, if all states in the currency union, which are one another's major trading partners, cut their spending simultaneously, the result can only be a contraction of the regional economy as a whole. Proponents of austerity are blind to this danger because they get the relationship between saving and spending backward. They think that public frugality will eventually promote private spending. But someone has to spend for someone else to save, or else the saver will have no income to hold on to. Similarly, for a country to benefit from a reduction in its domestic wages, thus becoming more competitive on costs, there must be another country willing to spend its money on what the first country produces. If all states try to cut or save at once, as is the case in the eurozone today, then no one is left to do the necessary spending to drive growth.

The results of the experiment are now in, and they are consistent: austerity doesn't work.

The third factor is logical; the notion that slashing government spending boosts investor confidence does not stand up to scrutiny. As the economist Paul Krugman and others have argued, this claim assumes that consumers anticipate and incorporate all government policy changes into their lifetime budget calculations. When the government signals that it plans to cut its expenditures dramatically, the argument goes, consumers realize that their future tax burdens will decrease. This leads them to spend more today than they would have done without the cuts, thereby ending the recession despite the collapse of the economy going on all around them. The assumption that this behavior will actually be exhibited by financially illiterate, real-world consumers who are terrified of losing their jobs in the midst of a policy-induced recession is heroic at best and foolish at worst.

Austerity, then, is a dangerous idea, because it ignores the externalities it generates, the impact of one person's choices on another's, and the low probability that people will actually behave in the way that the theory requires. To understand why such a threadbare set of ideas became the Western world's default stance on how to get out of a recession, we need to consult a few Englishmen, two Scots, and three Austrians.

A LIBERAL TENSION

Austerity's origins lie in a tension within liberal economic thinking about the state. In the second of his *Two Treatises on Government*, the seventeenth-century English political theorist John Locke accepted the inevitability of inequality stemming from the invention of money and private property. But having done so, he also had to acknowledge the need for a state to police the inequities that the market produces. Any state that could do this effectively, however, would also be strong enough to threaten the property holders it was meant to protect. And so a tension was born in the heart of liberalism: you can't live with the state, since it might rob you, but you also can't live without it, since the mob might kill you. Later, when the eighteenth-century Scottish thinkers David Hume and Adam Smith turned to this tension, it took on another dimension: how to pay for the state that you fear but nonetheless need. The solution seemed to be government debt, but neither Hume nor Smith liked that answer.

As Hume and Smith each noted, the government could borrow money by offering merchants the chance to make less risky investments with the same, or better, level of reward through the instrument of government debt. And for these investors, buying such debt would have the handy upside of funding the state they needed without their having to pay taxes. Indeed, the state pays them to fund it. But the problem with this free option is that it is not really free. In order to find buyers for its debt, the state must offer better returns than those offered on other investments, and by offering such terms, money is diverted away from market-driven investments toward inherently wasteful government spending. This process ends up reducing growth, increasing interest rates, and leaving the state indebted, first to local merchants, and then to foreigners. Rather than solve the problem of how to pay for the state, this process leads to perpetually increasing taxes and, as Smith warned, the inevitable ruin of the lender, as "the idle and profuse debtor [earns] at the expense of the industrious and frugal creditor, . . . transporting a great part of the national capital . . . to those which are likely to dissipate and destroy it." Given this, Hume and Smith concluded that the poison of government debt had to be resisted at all costs, even if it seemed appealing as a short-term solution for funding the state.

Nineteenth-century British liberal thinkers tried to resolve this tension in two different ways. Some, such as David Ricardo, sought to banish the state from the economy altogether, seeing its actions as counterproductive interventions in what was an otherwise self-equilibrating system. Yet others, such as John Stuart Mill, began to see a role for the state beyond policing inequalities. Mill went so far as to argue that government debt need not bankrupt a country and could even be used to fund useful social investments. For Mill and his ideological brethren, capitalism could not function properly in the modern world without increased state intervention. They considered the self-equilibration that Ricardo predicted unlikely because of labor agitation, business-cycle volatility, demands for suffrage, and a world of unemployment and poverty amid plenty.

So in the twentieth century, liberalism began to split along two tracks. On one, following Ricardo, some Austrian economists, notably Joseph Schumpeter, Ludwig von Mises, and Friedrich Hayek, rejected ever more firmly the state, its interventions, and its debt. On the other, following Mill, a group of British economists, including John Hobson, William Beveridge, and, ultimately, John Maynard Keynes, made their peace with a more active and, when needed, indebted state.

THE LIQUIDATIONIST TRAP

Although a fear of the state and its debt has been hard-wired into liberalism since its inception, it was not until states emerged that were big enough to be cut that opposition to government debt became a policy fad. In the 1920s and 1930s, particularly in Austria and the United States, a growing number of economists sought to explain why real economies, in spite of their supposed tendencies toward self-equilibration, seemed to boom and bust and slump quite spectacularly. The answer given by this school of thought was that banks lent too much money, which led to the misallocation of capital to dubious investments. Eventually, and inevitably, the cheap money fueling these investments would dry up, interest rates would rise, and bankruptcies would follow. The upshot, as Andrew Mellon, U.S. treasury secretary under President Herbert Hoover, put it, is that this will "purge the rottenness out of the system. . . . People will . . . live a more moral life. . . . And enterprising people will pick up the wrecks from less competent people."

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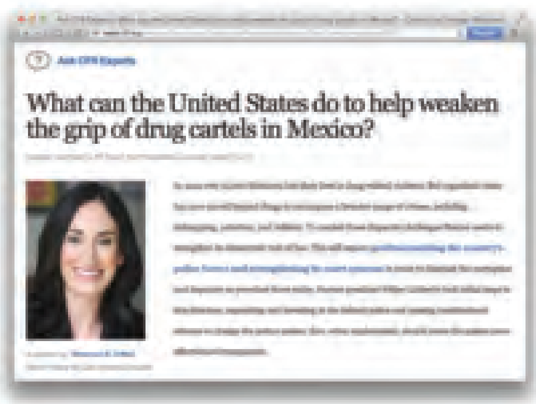

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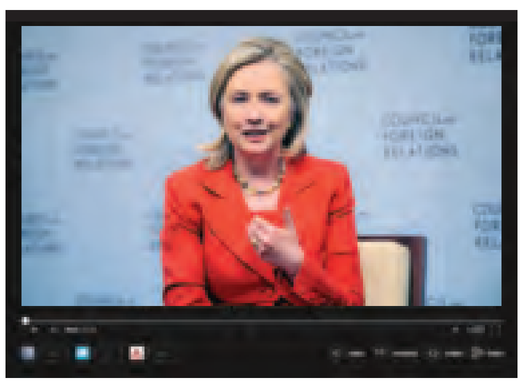

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In short, the Austrians argued, the binge of debt financing could be cured only by the purge of austerity. The role of the state was to get out of the way and let the process unfold. "Liquidationism"—letting failing enterprises be liquidated as a solution to economic problems—was the name of the game, and so Washington tried it during the Great Depression. And just like today in the eurozone, it simply didn't work. Over in the United Kingdom, a similar approach, arguing that government spending to halt a slump would merely increase debt and crowd out private investment, became known as "the Treasury view." It, too, was put into practice, and it, too, failed, making the British economy slump even further.

It took Keynes' *General Theory*, combined with the repeated failures of austerity to salvage slumping economies during the 1930s, to kill austerity as a respectable idea. The same three arguments raised above—about distribution, composition, and logic—were critical. Together with the practical results of the policy experiments of the 1930s and 1940s—including the experience of World War II, which seemed to vindicate the need for and efficacy of massive government intervention into the economy—these arguments reframed the case for austerity, and it collapsed. Why, then, did it come back with such force more than 60 years later? To answer that question, we need to move once again to the United States, where the Austrian model of booms and busts found unexpected resonance in the financial crisis of 2008, and journey from there to postwar Germany, where austerity thinking managed to survive the long Keynesian winter and give birth to the crisis response one can see in the eurozone today.

HOW THE GERMANS DID IT

One of the odd things about graduate programs in economics after the 1970s, when stagflation finally took the gloss off Keynesianism, was that one could work toward a Ph.D. in the finest schools in the United States and never take a class in money, banking, or credit. This was because in the neoclassical framework that emerged after the Keynesian heyday, money was seen to be neutral in its long-term effects (it changed neither preferences nor possibilities), while agents' expectations were seen to be farsighted and rational. In such a happy world of self-equilibration, credit is simply one person's deferred income transferred to another person, and banks are simply conduits for investment. The 2008 financial crisis, which revealed an actual world of hyperleveraged excessive lending, overborrowing, and willful risk blindness on the part of supposedly rational actors, came as quite a shock to this mindset. But it didn't come as a shock to anyone still reading those austere Austrians.

The crisis seemed to play out exactly according to Mises' and Hayek's model of slumps: banks lent too much money, states backstopped the banks, consumers borrowed too much, and capital was misallocated, feeding an epic housing bubble from 2000 to 2007. The model carried a clear policy prescription: don't bail out the banks. But after that had already been done and the private debt of the banking system had been over to the public balance sheet, the only thing left to do—just as the Austrians had argued in the 1920s and 1930s—was to cut the budget, reduce the debt, accelerate the bankruptcies of underwater businesses and individuals, and let the "enterprising people . . . pick up the wrecks from less competent people."

During the 1920s and 1930s, austerity didn't just fail; it also helped cause World War II.

Liquidationism was back, but only because economists and policymakers had forgotten the earlier arguments against it during the three-decade-long neoliberal interregnum. In a world of efficient markets and rational consumers, the type of crisis now facing the state had been deemed theoretically impossible. So when it hit, the only approach standing that took banks and booms and busts seriously was the Austrian one—for which we can partly thank the Germans.

Given Germany's history with inflation and deflation in the 1920s and 1930s, financial stability has always been the watchword of postwar German economics. But what has really distinguished German economic thinking is its dismissal of Keynesianism—because the theory never made much sense to German policymakers considering the way the German economy actually functions.

German economic growth has always been export-led. Berlin's priorities after World War II were thus to invest in rebuilding the country's capital stock (which meant keeping a lid on domestic consumption) and to recover export markets (which meant keeping costs, and thus wages, low). With external demand more important than internal demand, growth was determined by competitiveness and monetary stability, not domestic consumption. All government stimulus programs would do in this system is increase the costs of production and lower export demand.

This is a great economic model for a supply-side, export-led economy with a strong monetary authority and supercompetitive products. The problem is that, like the Highlander, there can be only one. Not every European country can be a Germany and run a surplus; others need to run deficits, just as for someone to save, someone else needs to spend. Unfortunately, Germany was able to design the key institutions of the EU and the eurozone in its own image, creating a strong competition authority and an extremely independent and inflation-obsessed central bank. So in the moment of the Greek crisis, Germany's particular objection to Keynesianism was translated into the prevailing policy stance for an entire regional economy, with disastrous results.

Germany could afford to cut its way to growth, since the sources of its growth lay outside its borders: it is the export champion of the world. But the whole of Europe cannot play that trick, especially as the Asian countries are also running surpluses. As the *Financial Times* columnist Martin Wolf asked, "Is everybody supposed to run current account surpluses? If so, with whom—Martians?" The ideas that informed the institutional design of the postwar German economy and the EU may work well for Germany, but they work terribly for the continent as a whole, which cannot run a surplus no matter how hard it tries. Once again, composition matters.

To see what will happen next, we can look back to the last time this was tried on a grand scale, the 1930s, and the havoc that followed. But such history is irrelevant, critics will object, since more recent cases, in places such as Canada and Ireland in the 1980s and eastern Europe more recently, show the opposite, that austerity leads to growth. But they don't, actually, so it is worthwhile looking at them, too.

AUSTERITY NOW, INSANITY LATER

During the 1920s and 1930s, the United States, the United Kingdom, Germany, and Japan all tried to simultaneously cut their way to growth. This project didn't just fail; it also helped cause World War II. The U.S. economy of the 1920s was a strange beast. Agricultural prices fell, unemployment crept up, and yet the stock market boomed. Then, in 1929, it went spectacularly bust, sending tax receipts collapsing and the deficit ballooning. At this juncture, fearing that the Americans would follow the British and also abandon the gold standard, investors sent their money rushing out of the country, causing interest rates to rise and worsening the contraction. In a classic example of austerity-speak, Hoover argued that the country could not "squander itself to prosperity on the ruin of its taxpayers," and in 1931, he proceeded to simultaneously raise taxes and cut spending. Over the next two years, unemployment shot up, from eight percent to 23 percent, and the economy collapsed—as did the United States' ability to act as a destination for other states' exports. The U.S. economy did not fully recover until massive wartime spending reduced unemployment to 1.2 percent in 1944.

The situation was hardly any prettier in the United Kingdom, which had exited World War I in much worse shape than the United States. In order to grow after the war, London should have devalued the pound, which would have made its products more competitive. But since the United Kingdom was the world's largest financial power and the linchpin of the gold standard, even a hint of devaluation would have produced panic on the exchanges, prompted a run on the pound, and caused British assets overseas to lose significant worth. Caught in this position, the United Kingdom set a high exchange rate, hoping to inspire investors' confidence, but this had the effect of destroying British exports and thwarting the postwar recovery. So the United Kingdom stagnated, with chronically high unemployment, throughout the 1920s.

Things only got worse for the British when the United States raised interest rates in 1929 to cool the Wall Street boom and when the Young Plan for the repayment of German reparations went into effect, in 1930, giving seniority to official, over private, debts, meaning that Germany's official debts would get paid first in the event of a bust. This mattered because previously, a lot of private American money had flowed to Germany since private money was at that time guaranteed ahead of official debts. When the Young Plan reversed debt seniority, the resulting capital flight from Europe to the United States ensured that British interest rates would remain high and stagnation would continue.

Since the United Kingdom could neither inflate nor devalue its currency, deflation—meaning austerity—remained the economic policy of choice, even though it was self-defeating. Despite repeated rounds of spending cuts, and despite even going off the gold standard, the United Kingdom saw its debt rise from 170 percent of GDP in 1930 to 190 percent in 1933. By 1938, in real terms, British economic output was only slightly higher than where it had been in 1918. In short, the world's two largest economies tried to cut their way to prosperity at the same time, and it only compounded their difficulties. In Germany and Japan, it led to the rise of fascism.

Germany's woes in this period are often laid at the feet of the hyperinflation of 1923, which has become the chief domestic economic bogeyman of the era, a nightmare never to be allowed to happen again. But what this view forgets is that the hyperinflation was much more a deliberate government policy to avoid making reparations payments to France, rather than a misguided attempt at a Keynesian stimulus effort gone awry. After France's occupation of the Ruhr in 1923, the German government began paying local workers' wages as an act of resistance, causing the deficit to spike. The German central bank, the Reichsbank, printed money to cover the deficit, which caused the deutsche mark's value to fall. This made reparations payments impossible, forcing a renegotiation of German debt. Soon afterward, however, the inflation was stabilized, and the country started to get back on its feet.

Cuts in and of themselves do not lead to growth; they work only in small states that can export to big states that are growing.

When the new debt repayment plan caused private U.S. money to flood out of Germany, the Reichsbank decided to raise interest rates to counter the flow, pushing the economy into a slump. At this juncture, the Center Party won the chancellorship and tried to right the fiscal ship with draconian spending cuts. But the more the government slashed, the more the Nazis gained support. In the 1930 elections, the Nazis won 18.3 percent of the vote and became the second-largest party in the Reichstag. They were, after all, the only party arguing against austerity. By 1933, as the cuts continued, they took 43.9 percent of the vote. Austerity, not inflation, gave the world National Socialism.

The Japanese government applied austerity more consistently and with more vigor than it was applied anywhere else. Following a stock market bust in 1920, several rounds of spending cuts exacerbated an ongoing deflation. The largest item on Tokyo's budget was military spending, which was almost halved over the next decade. Japan continued to cut spending in order to get back on the gold standard, which it did in 1930—just as the U.S. and European economies went into free fall, killing Japan's exports. Japan's growth rate fell by 9.7 percent in 1930 and by 9.5 percent in 1931, while its interest rates shot up. Despite the collapse, Tokyo accelerated its spending cuts, with the military bearing the brunt. By late 1930, the military had had enough.

Following the October 1930 ratification of the London Naval Treaty, which placed limits on naval buildups, an ultranationalist group in Japan attempted to kill Prime Minister Osachi Hamaguchi (he ultimately died of his wounds). Later, in 1932, former Japanese Finance Minister Junnosuke Inoue, who had been the architect of the austerity policy throughout the 1920s, was assassinated. The finance minister of the new government, Takahashi Korekiyo, abandoned austerity, and the economy quickly began to turn around, growing at an average rate of four percent a year from 1932 to 1936. Proving that no good deed goes unpunished, however, Korekiyo was himself assassinated in 1936, along with several other civilian political figures. By 1936, the civilian government had collapsed, bringing Japan's experiments with both democracy and austerity down with it. Japan's imperial expansion was the result.

THAT '80s SHOW

When the world's four largest economies all tried to cut their way to prosperity at the same time in the interwar years, the result was contraction, protectionism, violence, and fascism. Fine, some may say—but different cases suggest different lessons. The experiences of Australia, Canada, Denmark, and Ireland in the 1980s are often held up as examples to argue for the existence of what economists call "expansionary fiscal consolidation," when cuts supposedly lead to growth. Sadly, the facts disagree.

During the 1990s, various studies appeared to show that the fiscal consolidations that had taken place in the previous decade in Australia, Canada, Denmark, and Ireland had given the local economies a boost. All these countries cut their budgets, devalued their currencies, and controlled wage inflation, and their later growth rates were impressive. The purported mechanism behind the growth was consumers' farsighted expectations, that is, the confidence effect: anticipating that public spending cuts now would mean lower taxes later, individuals spent their money, making these economies boom.

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More recent scholarship, however, has called into question the methods of the earlier studies, the received wisdom about what actually happened in the countries in question, and the key lessons of the era. First, in each of these cases, a small state was cutting its public spending at the peak of a period of growth and when much larger trading partners were expanding. They were also discrete events, happening one country at a time, rather than simultaneous contractions.

Second, in all these cases, the main instruments of austerity were large currency devaluations and agreements with labor unions to control prices so that the devaluations' effects were not eaten away by import inflation. That is, if a country is trying to get a boost from exporting with a cheaper currency, it does not want the cost advantage it has gained from the devaluation to be negated by wage increases, so it strikes a deal with the unions to stop that from happening. This, of course, is possible only in countries that have unionized large parts of their work forces. Given this, these cases hardly provide evidence that austerity-inspired confidence leads to growth.

Moreover, in the cases of Australia and Denmark, these so-called expansionary consolidations produced only a dead-cat bounce—a brief but illusory resurgence. Both economies fell into severe recessions within two years of the cuts (so much for confidence). Meanwhile, in the Irish case, as the economist Stephen Kinsella has shown, real wages increased during the late 1980s, suggesting that a routine stimulus effect, not changes in consumer expectations, caused the boom. Canada, for its part, was able to cut and grow in the 1980s for the simple reason that its major trading partner, the United States, was undergoing a massive economic boom while the Canadian dollar was becoming almost 40 percent cheaper.

None of this has anything to do with expectations or confidence. Indeed, properly told, it is a Keynesian story of how devaluation and wage moderation can boost an economy when its partners are growing, and that boost, in turn, allows room for fiscal consolidation. As Keynes put it, "The boom, not the slump, is the right time for austerity." Cuts in and of themselves do not lead to growth; they work only in small states that can export to big states that are growing. Just as countries that trade with one another cannot all simultaneously run surpluses, so interlinked economies cannot all devalue at once and expect to increase their exports.

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WHY THE REBLL ALLIANCE CAN'T BLOW UP THE DEBT STAR

But wait, there's more. Most recently, a batch of eastern European countries have been held up as role models by advocates of austerity: Romania, Estonia, Bulgaria, Latvia, and Lithuania—call them the REBLL Alliance. They cut spending more than any other countries in Europe in 2009 and 2010 and grew faster than the rest in 2011 and 2012. Could this finally be the proof that spending cuts lead to growth? Not so fast.

The first question to ask is why there was so much cutting in the first place, and the answer is interesting. Back in the early years of this century, when these states were on the verge of becoming EU members, their bank assets looked extremely undervalued. The governments of these states, recovering from their communist pasts and eagerly embracing their capitalist futures, decided to build economic institutions that were extremely open to capital flows and friendly to foreign investment. The coming together of these two forces led 80–100 percent of the local banks to be bought by foreigners. During the liquidity crunch of 2008–9, the new Austrian, German, and Swedish parent banks decided to find the extra cash they needed by taking money from these local eastern European branches. But this meant that the eastern European countries had to watch helplessly as their money supplies flowed away.

To stanch the bleeding, an agreement was signed in Vienna in 2009 between the banks; the EU, the International Monetary Fund, and the European Commission; and Hungary, Latvia, and Romania. It committed the banks in Europe's core to keeping their funds in their eastern European banks if the eastern European countries' governments committed to austerity policies designed to stabilize the local banks' balance sheets. The Vienna agreement prevented the spreading of the liquidity crunch to the rest of the REBLLs, so long as austerity was applied elsewhere in the region as well. The upshot of this agreement was that Latvian teachers and Romanian pensioners took massive income hits to guarantee the senior bondholders of European core-country banks.

But putting all this aside, has the cutting—and there was lots of it—been successful? In Latvia in 2009, consumption dropped by almost 23 percent and GDP fell by seven percent. In Estonia, both fell by almost 15 percent. Double-digit public-sector wage cuts became the norm across the REBLLs, causing havoc for public health, education, and social welfare programs. Yet the bounce back has been impressive, with these countries' recovering between 60 and 80 percent of their losses from the contraction. Still, the game has not been worth the candle.

First, if the objective of austerity is to reduce debt, then all these countries, except Estonia, have failed: they have more debt today than when they started cutting. Indeed, Latvia, Lithuania, and Romania all ran much higher budget deficits at the peak of their austerity programs, in 2009–10, than did either Greece or Spain at the peak of theirs. Second, it will take until at least 2015, under the most optimistic of projections, for any of them to regain the ground lost since 2009, with the result that unemployment in these states will remain in double digits for the foreseeable future. And third, these countries did not experience any of the positive expectations or confidence that austerity is supposed to generate. According to a Eurobarometer poll, 79 percent of Latvians surveyed in 2009 thought that the economic situation in their country was bad. By 2011, when the Latvian growth rate was the highest in the EU, a full 91 percent of Latvians surveyed perceived the economic situation to be bad, and 58 percent said that the worst was yet to come. In short, as is the case with the expansionary consolidations of the 1980s, eastern Europe's recent experience cannot be described as a victory for austerity. The REBLL Alliance has failed to blow up the Debt Star. In fact, it just made it bigger, and at enormous cost.

TOMORROW IS ANOTHER DAY

If austerity doesn't work, what is the alternative? Spending sprees by already debt-ridden governments or a series of defaults in the developed world are hardly attractive options. But one does not have to be so ambitious. A simple rule would be Hippocratic: first, do no harm. The eurozone has consistently applied austerity, and it is now shrinking as a whole. The United States, by contrast, has not pursued austerity, and as a result it has cleaned up its balance sheets and is now able to grow. Yes, U.S. debt has increased, too, but growth eventually cures debt. Spending cuts, if they are simultaneous and large scale, will only add to the problem.

The relationship between spending cuts and debt is best captured by the economist Richard Koo's idea of balance-sheet recessions. Countries cannot simultaneously shed their public and their private debts, which is what Europe has been doing. Rather, governments should get the private sector to pay down its debts while maintaining public spending; after all, private-sector savings need to come from somewhere. Once that is done, as the private sector recovers, tax revenues will increase, and the accumulated debts and deficits can be paid down. As noted before, getting this right is a matter of composition and timing.

The United States, meanwhile, should take advantage of the fact that it is not saddled by the kind of institutional flaws that exist in the eurozone and that it can borrow for virtually nothing. Now is a good time for Washington to make useful investments. To take just one example, around a third of the bridges in the United States are badly in need of repair. Fixing them would enhance U.S. productivity and have no downside. In this sense, austerity is not just wrong because of the problems of distribution, composition, and logic described above; it also carries a dangerous opportunity cost. If the United States were to proceed down the path to austerity, roads would go unrepaired, students would miss out on gaining knowledge, and the skills of the unemployed would atrophy. The country's position relative to any country that did not do this would worsen. The United States would end up poorer and more debt-ridden than before, and what is most problematic, it would lack the capacities needed to generate future growth.

Those of a Schumpeterian persuasion might counter that even if government spending were cost-free, the true source of growth would still be private innovation. But as the venture capitalist William Janeway explains in his recent book, *Doing Capitalism in the Innovation Economy*, what makes what Schumpeter termed "creative destruction" possible is what he calls "Keynesian waste." The U.S. aerospace industry could never have been born without massive government defense spending; recent innovations in biotechnology owe their existence to the National Institutes of Health; even the Internet was a byproduct of government research. The raw material for innovation and growth often comes from government, not private, spending.

If the United States adopted austerity, the inability of the government to generate Keynesian waste would undermine the country's ability to grow. Cut away the state, especially at a moment when other countries around the world are busy slashing their way to prosperity, and Americans will end up much worse off than they could ever have imagined. But don't take it on faith. Just ask the Europeans how it has been working out for them.

Myanmar

THE REMARKABLE TRANSFORMATION CONTINUES

The world applauds as President U Thein Sein launches a second wave of institutional and market reforms, cuts red tape to liberalize the economy, and entrenches the democratic process. Meanwhile, the nation is readying itself to host the East Asia WEF, confirming its restoration to the community of nations.

Hard to imagine just several years ago, today's Myanmar is now a proud member of the wider community of nations that are committed to democracy, human rights, freedom of speech, trade, and association. The country is already seeing dramatic benefits: GDP growth is now above 5 percent per annum and is expected to top 6.3 percent in 2013. The estimated population of 60 million people has greater opportunities, improved working conditions, and rising income levels. Foreign direct investment (FDI) has more than doubled from US$1 billion in 2010–2011 to US$2.325 billion in the current financial year.

According to the World Bank's last published report, Myanmar is best characterized as a country on a triple transition path from military rule to a democratic and decentralized system of governance; sixty years of internal conflict to peace in the border areas; and a centrally directed socialist economy to one that is modern, market-oriented, and open. Any of these paths alone would be a great challenge, but a combined success in three areas is expected to secure and consolidate the path for democracy and economic growth for future generations.

> "We are working towards a new and more inclusive Myanmar."
> President U Thein Sein

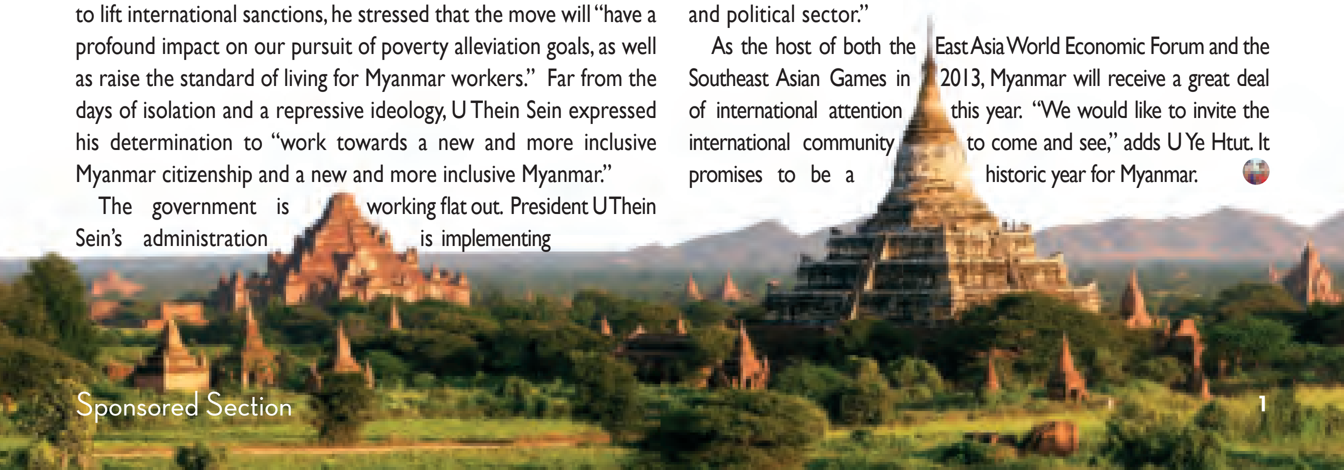
"Myanmar is working tirelessly for democratic change and a lasting peace," said President U Thein Sein at a meeting with the European Parliament in March 2013. "We are ready to work with international investors as equal partners." Praising recent decisions to lift international sanctions, he stressed that the move will "have a profound impact on our pursuit of poverty alleviation goals, as well as raise the standard of living for Myanmar workers." Far from the days of isolation and a repressive ideology, U Thein Sein expressed his determination to "work towards a new and more inclusive Myanmar citizenship and a new and more inclusive Myanmar."

The government is working flat out. President U Thein Sein's administration is implementing reforms to improve monetary and fiscal management while facilitating trade and (FDI) and removing structural impediments to growth by upgrading the infrastructure, building legal and institutional frameworks, and developing banking and financial sectors. Economic transition will require substantial investment in physical and social infrastructure, development of human capital, and improvement of social services. International institutions, including the World Bank and the Asian Development Bank (ADB) have committed to resume development support through the provision of financial assistance and analytical and advisory service.

The United States and other Western countries have suspended most sanctions in recognition of Myanmar's political and economic reforms. Rajiv Shah, chief of the U.S. Agency for International Development recently declared to Reuters that he had witnessed an "explosion of international support for this transition." Following the U.S.-Burma Partnership for Democracy, Peace, and Prosperity launched by President Barack Obama when he visited Myanmar last November, USAID has unveiled major plans to assist the country's development, including a US$11 million project to support free and fair elections in 2015.

Myanmar's deputy minister of information, U Ye Htut, confirms that the country is embarking on a new path. "Myanmar is opening up to the international community," he says. "In the next few years we want to take our rightful place in the regional economic and political sector."

As the host of both the East Asia World Economic Forum and the Southeast Asian Games in 2013, Myanmar will receive a great deal of international attention this year. "We would like to invite the international community to come and see," adds U Ye Htut. It promises to be a historic year for Myanmar.



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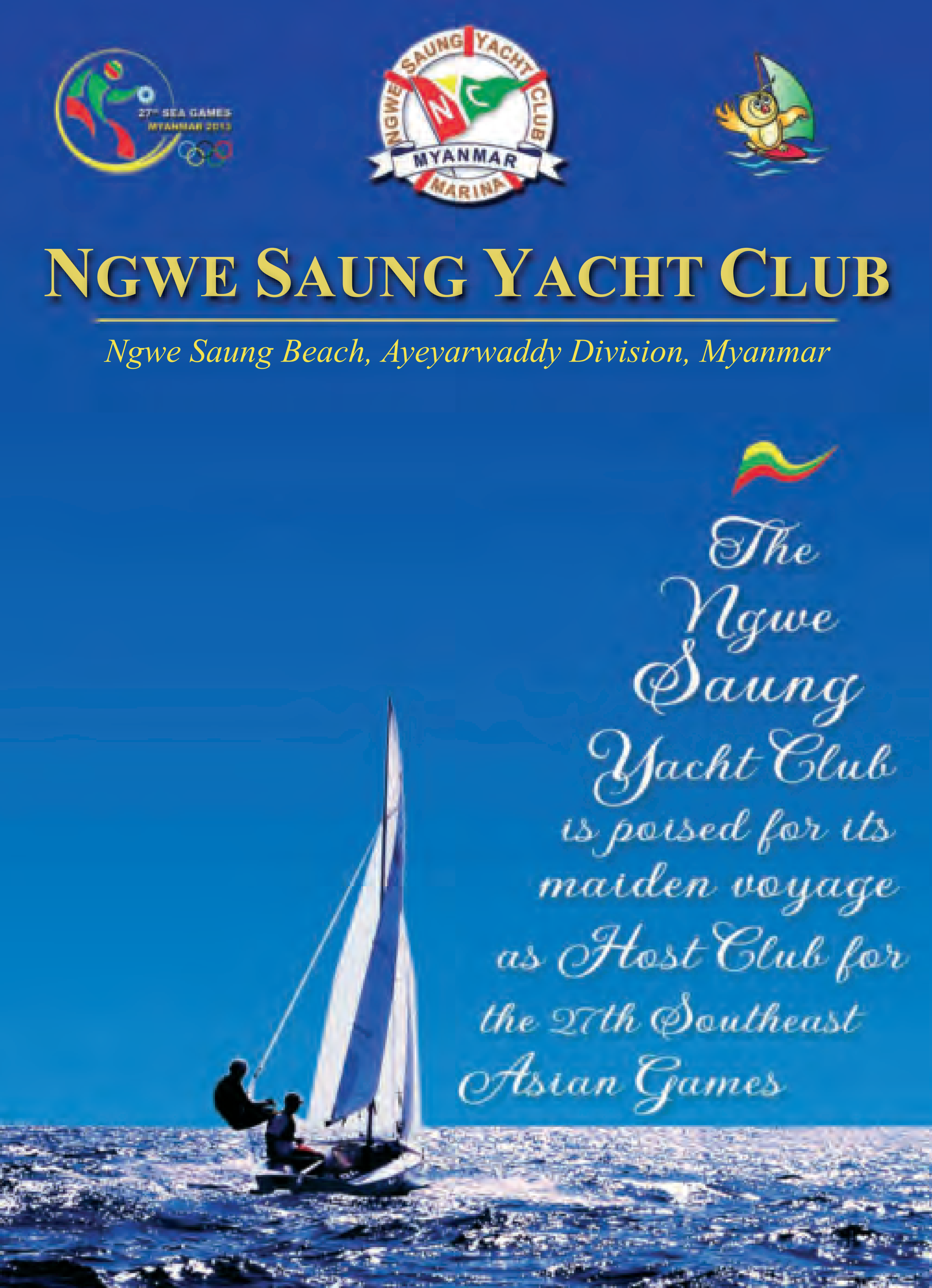

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NGWE SAUNG YACHT CLUB HOSTS SOUTHEAST ASIAN GAMES

U Moe Myint is a man of many talents: navigating the intricacies of the oil and gas empire, MPRL E&P, of which he sits at the helm; battling the elements on the high seas as President of The Myanmar Yachting Federation; and now under his most recent mantle as the creator of Ngwe Saung Yacht Club, which is playing proud host to the 27th Southeast Asian (SEA) Games, from December 11 to 22, 2013.

A renaissance man who applies the same gusto, precision, and passion to all of his ventures, his achievements and accolades are impressive. However, it's the indelible mark he plans to leave on the hearts and minds of future generations of Myanmar yachtsmen, that he would like to be his legacy.

The Yangon Sailing Club is testament to U Moe Myint's commitment to developing and promoting the sport of sailing in Myanmar, and it can be seen as a physical expression of his pride that Myanmar was the first country to introduce sailing into the SEA Games.

The Yangon Sailing Club was established in 1924, the first commodore being the governor of Burma. A new clubhouse was donated and opened in April 2006, the brainchild of past commodore U Moe Myint. The design of the two-story building is undeniably maritime, berthed on the shores of Inya Lake like a graceful ship. Thanks to U Moe Myint's sustained efforts, the club has improved significantly in the arena of competitive international sailing and among other initiatives, it recruits young optimist class sailors for the future at the summer sailing clinic, attended in 2012 by over sixty trainees.

From the intimate vistas of Inya Lake to the shores of Ngwe Saung beach, U Moe Myint's Herculean US$15 million yacht club project sets the perfect tone for Myanmar's hosting of the 27th Southeast Asian Games, last hosted in 1969, forty-four years ago. It is the perfect moment, as Myanmar's presence on the regional and global stage grows ever stronger, for this prestigious event to return, and it is a potent symbol of the values of the New Myanmar.

A particularly interesting aspect of this year's water-based part of the SEA Games and a metaphor for the consolidation of improving relations between Myanmar and the rest of the world is the redesign of the Rater-class boat, originally designed in 1907 for use on the River Thames in London. Built from teak, the Rater was brought over from India to Myanmar in 1924 and as U Moe Myint describes, it is set for a spectacular comeback: "We brought back the original design from the UK, and created a new design using AutoCAD, consulting naval architects from Myanmar Shipyards to build a modern version for use in the sea. Specialist coaches were brought in from Australia and the UK. Fascinated by this new design, they recommended further adaptations and improvements. At the SEA Games, an internationally accredited measurer from the International Sailing Federation will measure the eight boats to ensure they are equal, lots will be drawn by all the participating countries, a race will ensue, and may the best team win!"

The meticulous attention to detail that U Moe Myint has paid to the reincarnation of the Rater is a perfect expression of the steadfast commitment and altruism that have driven him since 1989 to tirelessly promote and patron the sport of sailing in Myanmar. His overriding goal is to inspire young people to engage with the sport. As he rightly says, "Sailing plays an important role in molding a person's character, instilling in young people a sense of discipline and self-respect. Sailing is highly technical and demands analytical thinking and strong decision-making capabilities." This provides invaluable learning opportunities that fully equip young people to handle with precision and fearlessness the professional and personal challenges of their adult lives. It is the potential of the Southeast Asian Games to reach out to and inspire the youth of today and show them that they can achieve anything they set their minds to that drove U Moe Myint's to create Ngwe Saung Yacht Club. Nowhere is this doctrine more apparent than in U Moe Myint's own family. His two sons, Sithu Moe Myint and Phone Kyaw Moe Myint, who won a gold medal in the 2001 SEA games, are determined to triumph again in December.

The official mascot of the 27th SEA Games, a pair of owls, is an auspicious symbol in Myanmar culture, and is considered to be a lucky charm. It is the mission statement of the games to "create friendship, cooperation, love, happiness, and equality among the ASEAN community." Myanmar's luck is certainly running high, her ship is poised to come in this December: Ngwe Saung Yacht Club, the SEA Games and Myanmar are all going for gold.

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OPEN FOR BUSINESS

>>Finally, after five decades of isolation, Myanmar is back and courting investment partners like never before.

Ever since former secretary of state Hillary Clinton's Myanmar trip at the end of 2011, the floodgates have opened to a veritable deluge of interest from foreign investors from far and wide, keen to survey the potentials of what still remains one of the world's last important frontier markets.

While the interest has been considerable, it has yet to be converted into the kind of large-scale investment Myanmar urgently needs to modernize and upgrade its infrastructure, telecommunications services, transport network, and power supply capacity, with current investment flows barely representing the tip of the iceberg.

"Our doors are open. We would like to work with all investors and development partners."

Dr. Kan Zaw

Union Minister of National Planning and Economic Development

With its large, youthful population, abundant natural resources, and strategic location between the emerging economic superpowers of China and India, Myanmar has all the ingredients of a highly attractive investment destination. However, many foreign players seem to be waiting for further reforms before they enter the market in a meaningful way. Others are holding off for the 2015 national elections or until a clearer legal framework is in place. Justin Woods, coauthor of the *Asia Business Outlook Survey (ABOS) 2013,* recently declared to *The Myanmar Times*, "Myanmar's business reform processes need to continue in the right direction—and sanctions need to be lifted permanently—to attract more investment." He added, "Foreign multinational companies need more certainty. They follow all the reforms very closely, but the laws and regulations are not certain enough yet."

A new foreign investment law (FIL) was approved last November in a bid to increase attracting foreign investment to the country. "The new FIL is more facilitative, more investor friendly, and more competitive than other Asian investment laws," says Dr. Kan Zaw, union minister of national planning and economic development. Key features include a provision that allows shares in entities that have been formed under the FIL to be transferred from Myanmar citizens to foreigners and vice versa if approval is granted by the Myanmar Investment Commission. The rules no longer set a minimum capital requirement for investments, except in mining ventures. Another important clarification is the dropping of foreign ownership restrictions in joint ventures, except in restricted sectors, where they will be capped at 80 percent. Other sectors, which have been deemed to not require foreign capital or knowledge, such as agriculture and fisheries, as well as industries that pollute the environment, are off-limits to foreign investment.

The Directorate of Investment and Company Administration (DICA) sits under the Ministry of National Planning and Economic Development. Its functions involve the appraisal of proposed investment projects. DICA's director general, U Aung Naung Oo, is very optimistic, "In 2012 we received approximately thirty or forty applications. About 90 percent of the proposals were successful. In the two months of 2013 we have already received nearly twenty proposals." He explains the FIL brings numerous advantages to foreign investors: "It guarantees that there will be no nationalisation of foreign investment, no termination of investment, and it ensures free repatriation for foreign investors of their earnings obtained in our country." However, he also adds there are a number of issues still to resolve before Myanmar can compete with some of its neighbors for large-scale inward investment: "Our workers need to upgrade their capacities and skills, and the situation in telecommunications, power supply, and roads in Myanmar is not good enough," he admits. "Investment in Myanmar is not only beneficial to foreign investors, it is also beneficial to Myanmar people, and it can fully support the democratization process of Myanmar. This is more important to Myanmar people than other benefits. Come over to Myanmar. Seeing is believing. Have a look at what is happening in our country and consider what you should do. Finally, don't overestimate Myanmar; we still have to do a lot."

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THE WORLD ECONOMIC FORUM COMES TO MYANMAR

>>East Asian Nation Takes Center Stage

Leading Myanmar's first-ever delegation to Davos in 2012, then minister of industry, U Soe Thane, commented to Reuters Television, "We have a lot of things to reform and lots of things have to change: laws, regulations, and institutions, not only in the political sector but also in the economic sectors. But sanctions are up to them (the West)." One year on, the country is now fully engaged in unprecedented reforms, most international sanctions have been lifted, and multilaterals such as the World Bank and ADB are back on the ground.

As a sign of Myanmar's increasing acceptance by the global community, the country was selected to host the East Asia World Economic Forum in the nation's capital, Nay Pyi Taw, from June 5 to 7 this year. The event will bring together a high level assembly of politicians, business leaders, academics, and civil society representatives. U Soe Thane has since been promoted to minister of the presidency and is an important mover and shaker in the president's inner circle, almost single-handedly responsible for taking the WEF to Myanmar. This was seen as something of a coup for a nation coming out of decades of economic and political isolation. Indeed, many find it hard to believe that things have moved so fast in so little time.

> "The World Economic Forum is a great opportunity for Myanmar."
>
> **U Hla Maung Shwe**
>
> Vice President of Myanmar Egress

Just ahead of Myanmar's chairmanship of ASEAN in 2014, the WEF is an unparalleled opportunity to showcase the country's ongoing reforms and to confirm Myanmar's reintegration into the global arena.

U Hla Maung Shwe, vice president of Myanmar Egress, is among the key organizers of the event and a prominent supporter. "The World Economic Forum is a great opportunity for the country," he says. "The future is very promising and encouraging for Myanmar, and even though the transition is a step-by-step process, it marks a new transition model for the world."

Serge Pun & Associates (SPA) are sponsors of the 22nd East Asia WEF and are arguably Myanmar's leading international flagship company. Chairman Serge Pun believes that the country has all the means to become one of the best destinations for foreign investment with its rich natural resources, capable young workforce, strategic location, and new foreign investment law. "What I think will happen is that our profile will be raised quite significantly through this event" he mentions, highlighting the importance of economic reform for Myanmar's transition. "If we ensure economic reform or develop our economy in the right way, then we will see the fruits of these reforms trickling down and promoting equity and inclusiveness and it will really bring prosperity into our society."

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MYANMAR BANKS PLAY CATCH UP

>>Myanmar's leading banks rush to modernize ahead of the ASEAN single market of 2015

As Myanmar positions itself as the hottest new frontier market, few can argue that the country's obsolete financial system needs urgent modernization and technology transfers. Indeed, it's still difficult to transfer currency in and out of the country and tourists were—until very recently—expected to leave their Visa cards at home and bring crispy new U.S. dollars to pay for goods and services in cash. President U Thein Sein has prioritized the reform of Myanmar's financial and banking system as a prerequisite pillar of the ongoing economic transition. And of course, there is also the added impetus of the imminent free flow of goods and services heralded by the arrival of the ASEAN Economic Community in 2015. By that date, ASEAN banks can set up shop in Myanmar, and Myanmar banks have to be ready to compete.

Reforms started in April 2012, when the government floated its currency to around 800 kyat per dollar. Since then, the kyat has been depreciated but in a steady manner, easing trade and foreign investment. Foreign economists affirm that "Myanmar's economy cannot realistically grow further until its banking sector is modernized, and for that to happen the Central Bank needs to be made independent." On January 30, the minister of finance and revenue submitted a draft of the new Central Bank Law. When the law is enacted, the Central Bank will gain autonomy and will assume responsibility for the country's monetary policy.

Part of the government's plan is to create a fully functioning financial market by 2015. The Tokyo Stock Exchange, Daiwa Institute, and World Bank are working hand in hand with the government to establish the Myanmar Stock Exchange. This will help local companies gain access to capital.

Myanmar's cash based economy is certainly transforming into a cashless one. In January, Western Union, together with seven local banking partners, announced a joint move to launch people-to-people money transfer services from all over the world to Myanmar. Both Visa and MasterCard have already partnered with local banks, creating a positive impact on tourism and business travels. Bank transactions on mobile phones are set to be made available within the next year, according to the Central Bank of Myanmar. The service will involve paying, transferring, and withdrawing money on phones. Further changes to Myanmar's banking sector are expected to follow.

Opened in August 2010, the Asia Green Development Bank (AGD Bank) is proud to affirm that it was the first financial institution in the country to offer e-banking to its customers in 2011. With the motto "We, all Myanmar will develop together," AGD Bank is committed to its ongoing modernization and to the comprehensive development of the nation. The bank is poised to expand rapidly in the coming years and hopes to achieve a leading role in Myanmar's banking sector. "We offer comprehensive, innovative, modern banking services and solutions. We can compete with bigger banks with services and products such as mobile banking, telebanking, online banking and providing a good service to our customers," says U Than Ye, chairman of AGB Bank.

In November 2011, the bank was granted authorization from the Central Bank to provide foreign banking services and remittance services to Myanmar citizens living in neighboring countries. "The fact that the bank was granted permission to do foreign banking is an important achievement as the bank is only two years old. We must try hard to be able to stand tall among other banks. For this reason, I established cooperation with banks in Singapore, Thailand, and Malaysia."

The recent lifting of sanctions by the United States on AGD Bank has significantly boosted its commercial prospects. When asked about this, U Than Ye declares, "We are very happy and thankful to receive a permit from the U.S. to do business with them. This is very good for our country's development and for the mutually beneficial Myanmar-U.S. relationship."

Although still relatively young, AGD Bank's expansion projects are well developed. On February 18 the bank registered as a public company, and it plans to sell shares within six months. The bank aims to be listed in 2015 on the Myanmar Stock Exchange and it is currently being assessed by IPO specialist firms from Japan.

Since its establishment in 1994 and under the management of its chairman, U Aung Ko Win, KBZ Bank has become both the largest private bank in the country and also the nation's biggest corporate tax payer. The bank has recently celebrated the opening of its one hundredth branch, in Tachileik (Shan State). KBZ bank aims to be a premier leading bank in Myanmar that has strong presence in the domestic financial market, says the bank's director, Daw Nang Lang Kham: "By playing an essential part in this sector we believe we can help accomplish the task of bridging Myanmar's economy with that of the rest of the world," she adds.

The group is considering listing some of the companies on the stock exchange, but no concrete plans have been defined yet. U Nyo Myint, managing director of international banking at KBZ, declares that they are waiting for all the necessary laws regarding listings on the soon-to-be inaugurated stock exchange to be enacted. He adds, "For the time being, we have to increase and strengthen our institutional capacity as one of the preparation steps."

Daw Nang Lang Kham explained to us that last year the bank signed an MOU with SMBC Bank of Japan for technical assistance and it

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has established agreements with banks in the region to provide training to their employees. Part of the staff is composed of expats from Singapore, Malaysia, India, and Japan who are helping with the modernization of core banking and contributing to knowledge transfer and capacity building.

KBZ has strongly invested in modernization, adopting Oracle Flexcube as its core banking system, and has extended its network with international financial institutions and remittance houses, including Western Union. VISA and MasterCard can also now be utilized in KBZ ATM machines for cash withdrawals and payments. KBZ is currently conducting IT tests so that in the future the whole network will be built on fiber network with twenty-four-hour electricity supply.

Meanwhile, at the Myanma Livestock and Fisheries Development Bank (MLFDB), Chairman U Kyaw Lwin stresses that the bank has expanded steadily since its foundation in 1996. He adds, "It was founded as a public bank by private citizens, and being a public bank we have implemented certain policies." One of them being that the maximum number of shares that any one person or institution can own is 5 percent of the authorized capital. "MLFDB is a public bank; it is not a family-owned bank, and it will remain this way when the bank is listed on the Stock Exchange in 2015. We are now learning from other countries in order to prepare for our listing," says Chairman U Kyaw Lwin.

Initially the bank mainly financed businesses and people involved in livestock and fisheries. Currently, although 41 percent of MLFDB's loans are still given to support livestock and fisheries–related activities, many other sectors, for example trading, also benefit from the bank's service offer. MLFDB was one of seven banks to sign an agreement with Western Union, and it is able to provide international transfer services. The bank has also received interest from foreign banks for joint projects. As a well-respected, reliable, and secure partner for the country's growing businesses, the bank is well positioned to continue its steady growth trajectory.

Over at Ayeyarwady Bank, Executive Chairman U Zaw Zaw—who founded the private bank in 2010—sees his company playing a major role alongside other national banks in facilitating cross-border settlements, as the flow of capital increases, following the removal of international sanctions.

"Since January 2012 we have begun to offer international products and services," says U Zaw Zaw. The bank's range of services now includes foreign exchange, foreign currency accounts, workers' money transfer, SWIFT remittances, and letters of credit. At the same time, Ayeyarwady Bank has invested heavily in an IT upgrade, developing a centralized database to serve all of its thirty-three branches. Further IT infrastructure improvements are in progress, to be launched in the coming months. "We view the IT strategy as a key business driver," says U Zaw Zaw. "It will pave the way for electronic banking services such as Internet and mobile banking."

Ayeryawady Bank is one of the four banks to see U.S. sanctions lifted. "The ability to offer services to companies from the United States and elsewhere will deliver multiple advantages," according to U Zaw Zaw. "It will benefit both foreign investors and the local community, generating more demand for financial services and helping to create greater integration between Myanmar and the international community."

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THE SKY IS THE LIMIT

>>Making up for lost time, Myanmar aviation sees explosive growth

In the 1940s, Rangoon, as Yangon was then known, was the aviation gateway to Southeast Asia. Today Myanmar is Asia's most underserved aviation market. Although it has some way to go before reclaiming its former title as regional gateway, it is swiftly becoming the region's fastest-growing market. Yangon Airport is undergoing an expansion that will welcome up to 3.3 million passengers a year, a major new international airport is planned at Bago, and private consortiums are taking over Mandalay airport. As far as aviation is concerned in Myanmar, the sky is the limit.

There are now twnety-one foreign carriers serving the market (up from thirteen in 2011), alongside the half a dozen domestic carriers, all of which plan to expand aggressively. International flights increased by 64 percent between April and December 2012.

While Myanmar is poised to become a major tourist destination, the sector is currently restricted by a limited number of hotel rooms and poor infrastructure. New terminals, roads and other transport facilities are under construction, in anticipation of a major boom.

The rise of Myanmar Airways International (MAI) highlights the potentials of the sector. Launched in 1993, today MAI is 80 percent owned by KBZ Group of companies and 20 percent owned by Myanmar Airways, the country's oldest airline.

With a total of eight aircraft, MAI already has offices in Bangkok, Singapore, and China and plans to dramatically expand its network, with a view to establishing connections to Korea, Japan, Cambodia, and Hong Kong, followed by the Middle East, Europe, and the United States. MAI's strong credentials, with over twenty years of experience in the aviation sector, put the airline in a good position to expand into new international routes, raise its profile as the national flag carrier of Myanmar, and bolster its growth through joint ventures.

"In partnership with foreign companies, we are looking to increase our capital and expertise in areas such as training, along with advice on expansion strategies," says Khin Maung Latt, chairman of MAI. "We are encouraging the Ministry of Tourism to open up the country and facilitate traveling, to make Myanmar more attractive for tourists. Hopefully, as the economy grows, we will also expand and develop."

Air KBZ is a young dynamic airline established in 2010. Nang Lang Kham, the chairman is a visionary, wise beyond her years at twenty-four, and a sterling example of what the new generation of Myanmar's up-and-coming entrepreneurs are capable of. Nang Lang Kham is just as passionate about preserving the country's unique cultural heritage as she is about growing her business. And she is

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keen to play an important role—as well as leave her mark—on the country's development in this crucial economic transition.

Nang Lang Kham is not only positioning her airline to take advantage of the excellent prospects that exist in Myanmar's aviation sector and satisfy a pent-up demand that is outstripping supply by considerable margins; she also sees her business as a motor for national growth and development. "Moreover, we are interested in the airline sector, as it would help the country develop," she rightly states.

Air KBZ has plans to form regional alliances with Thai airlines, so that travelers can cross borders without needing to go through major hubs: "Through shorter flights and closer destinations we will be able to reach further," she says. This will also help Nang Lang Kham achieve her goal of developing niche tourism, catering to specific groups such as diving enthusiasts, or those wishing to visit the world-famous pearl farms in the south.

She supports preserving Myanmar's distinct ethnic character and has committed her airline to mitigating its polluting effects, through tree planting and beach cleanup operations in which she personally participates.

Air Bagan is the largest private airline in Myanmar, serving nineteen domestic routes, the largest network in the country. The airline not only caters to tourists, whom it transports across the length and breadth of Myanmar, but also performs a fundamental humanitarian function.

Inhabitants of remote regions of Myanmar needing emergency medical care are often only able to reach expert help through Air Bagan. The airline pledges to "help promote the physical, social, economic, and academic status of people living in remote areas," according to its mission statement. "Air Bagan operates in remote, non-tourist destinations to provide affordable air travel for the people." Corporate social responsibility is at the core of the airline's values: it offers support to employees, safeguards the environment, donates to vulnerable members of society and supplies disaster relief.

Air Bagan constantly strives to set the highest standards of efficiency, security, and safety, aiming to become a potent symbol of achievement in the New Myanmar. The airline is introducing online reservations and e-ticket systems and is positioning itself to compete in the international marketplace. It is also the first domestic carrier to introduce the Safety Management System (SMS).

Myanmar recorded one million tourists in 2012, representing a 67 percent increase over the previous year. The year 2013 is expected to bring more than 1.5 million arrivals. No doubt, Myanmar is now the tourism industry's newest star, and it is set for an explosive trajectory that will see aviation rocket.

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GRASS ROOTS, UPWARD

>>Civil society takes root in Myanmar and flourishes

Many believe that the real benefits of Myanmar's current day democratization processes will only be truly appreciated by future generations. Meanwhile, as the political leadership decides on the course Myanmar's fledgling democracy will take and what its constitutional and economic legacy shall be, fortunately, there are also organizations—small and large—working at the grass roots and committed to nurturing education, health, and access to information and social development.

Civil society organizations have flourished with active support from both the nation's most prominent businessmen and the government itself. President U Thein Sein, at a meeting with civil society leaders last January, expressed his support of these organizations' wide-ranging activities. "I encourage civil society organizations to work hand in hand with the government in state, nation, and peace-building activities by making a positive contribution to the creation of a national identity that is in line with political stability, economic growth, and social harmony," he told *The Myanmar Times*.

A fundamental task for Myanmar civil society groups is to promote the values of democracy itself. Myanmar Egress has taken on this important mandate, committing to state building through the education of young leaders since its formation in 2006. The organization single-handedly established training courses and workshops to build the capacity of Myanmar's future leaders to teach them the values of the democratic process. "The priority of Egress is to work for Myanmar's sixty million people," said Vice President of Myanmar Egress, U Hla Maung Shwe.

At the Myanmar Business Coalition on AIDS (MBCA), founder Martin Pun has dedicated his time and effort to the underserved area of workplace education. Although it is an NGO with important humanitarian objectives, MBCA benefits from a corporate management style. Each of the organization's seven offices is self-sustainable raising, funds from the private sector when implementing new health education programs. When asked about his major achievements Martin Pun highlighted that MBCA has trained 150,000 employees, raised US$2 million to rebuild villages for Cyclone Nargis victims, and employs over 140 staff. He also added that "internationally MBCA has been recognized as an organization that can get things done, to deliver what we say, and to do so sustainably."

At the Brighter Future Foundation, Daw Nang Lang Kham works with children from remote villages to show them the value of education and encourage them to keep on studying. The group started its activities in 2008, providing relief for Nargis victims and now runs with the support of twenty like-minded individuals and funding provided by private individuals, customers of KBZ Bank, and donations from its employees. At the heart of the organization is a principle of learning about people's needs. "When we start a project we never simply give the money; we make sure we understand and learn about the people so we could really help them," says the foundation's chairman, Nang Lang Kham.

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HTOO FOUNDATION

>>Working to better ordinary lives

From the snow-capped peaks of the Himalayas on the far northern tip of Myanmar, to the wetlands of the Ayeyarwady Delta, U Tay Za's Htoo Foundation is the lifeblood of some of Myanmar's most remote areas, helping the country's most vulnerable inhabitants, preserving the nation's diverse cultural heritage, and improving standards of living.

"I created the foundation because I wanted to give something back to my community," says Htoo Foundation's U Tay Za, chairman of the Htoo Group of Companies. Declining offers to leave Myanmar to do business in Singapore, U Tay Za was determined that his business success benefit his own people. "I decided to stay and make sure that my activities brought about positive changes in the lives of Myanmar people," he stresses.

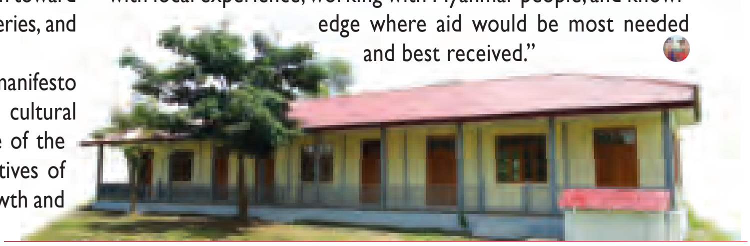
The foundation took shape in the wake of Cyclone Nargis, which struck the southwest of Myanmar on May 2 2008, to devastating effect. Htoo chairman U Tay Za and his colleagues provided vital relief for many survivors, donating more than USD$8 million toward reconstruction efforts, building schools, hospitals, monasteries, and administrative offices in Bogalay Township.

The key areas at the heart of the Htoo Foundation's manifesto are health care, education, and environmental and cultural preservation and protection. "Lack of education is one of the main problems in Myanmar and one of the main objectives of the foundation. Education is key to ensure economic growth and therefore social and political stability," remarks U Tay Za.

The foundation provides funding for a school in Putao, in the Kachin region, where two hundred students receive education, food, and accommodation. An aviation academy is also under development. An international program sends fifty of Myanmar's brightest students every year to attend world-famous educational institutions such as Harvard and Yale in the United States.

To help preserve the country's rich natural heritage, the foundation has funded an extensive one-hundred-acre tree plantation program at Kandaw village in Nyaung Shwe township, Southern Shan Sate. Another landmark project is the National Kandawgyi Gardens at Pyin Oo Lwin in Mandalay Division, which also functions as a research center to safeguard flora and fauna, not only in Myanmar but all over the world.

Htoo Foundation is well positioned to partner with international foundations and NGOs in order to speed up the country's development. As U Tay Za proudly says, "We can provide them with local experience, working with Myanmar people, and knowledge where aid would be most needed and best received."



Guiding Myanmar and its people to a bright future, straight from the heart.

Established in May 2008 after Cyclone Nargis, spending eight million dollars on major reconstruction, Htoo Foundation is now actively participating in humanitarian works and providing help in the promotion of education, culture, health care and regional development in remote areas of the country.

Htoo Foundation
our environment • our value • our culture

Ground Floor, Condo A, Mindama Housing
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The Irony of American Strategy

Putting the Middle East in Proper Perspective

Richard N. Haass

The United States emerged from the Cold War with unprecedented absolute and relative power. It was truly first among unequals. Not surprisingly, its leaders were uncertain about what to do with such advantages, and for more than a decade following the dismantlement of the Berlin Wall, U.S. foreign policy was conducted without much in the way of an overarching strategy.

The 9/11 attacks changed all this, giving Washington a surfeit of purpose to go along with its preponderant power. Within weeks, in the opening act of what became known as the "global war on terrorism," the United States moved to oust the Taliban-led government of Afghanistan in order to prevent future attacks by al Qaeda and to send the message that governments that tolerated or abetted terrorism would not be secure.

Association with terrorism, however, was not the reason the United States attacked Iraq 17 months later. Nor was the reason preempting the use of weapons of mass destruction, for Iraq represented at most a gathering threat in that realm, not an imminent one. (Now, we know it did not represent even that, but at the time, it was widely believed that it did.) Rather, the principal rationale for attacking Iraq was to signal to the world that even after 9/11, the United States was not, in Richard Nixon's words, a "pitiful, helpless giant." Many of the war's proponents also believed that Iraq would quickly become a thriving democracy that would set an example for the rest of the Middle East.

RICHARD N. HAASS is President of the Council on Foreign Relations and the author, most recently, of *Foreign Policy Begins at Home*.

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The decision to attack Iraq in March 2003 was discretionary; it was a war of choice. There was no vital American interest in imminent danger, and there were alternatives to using military force, such as strengthening the existing sanctions. The war in Afghanistan, in contrast, started as a war of necessity. Vital interests were at stake, and no other policy could have protected them in a timely fashion. But toward the end of the Bush administration, that conflict started to morph into something else, and it crossed a line in March 2009, when President Barack Obama decided to sharply increase American troop levels and declared that it was U.S. policy to "take the fight to the Taliban in the south and the east" of the country. With these escalations, Afghanistan, too, became a war of choice.

Around the middle of his first term, however, Obama seemed to conclude that the effort in Afghanistan, like the one in Iraq, made little sense, at least on the scale that the United States was conducting it, accomplishing little but costing a great deal and with no end in sight. Local realities trumped American ambitions. And so just as he had moved to end the U.S. military presence in Iraq (even though it might have been possible to arrange for a small, residual force to stay there), so he also moved to wind down U.S. military involvement in Afghanistan.

The drawdowns in Iraq and Afghanistan were part of a larger military distancing from the greater Middle East. When domestic upheavals rocked the region in the spring of 2011, the Obama administration tried to avoid getting deeply involved. Its participation in the operation to oust Libyan dictator Muammar al-Qaddafi was mostly limited to providing air and missile strikes and assisting the United States' NATO partners with intelligence and command and control—"leading from behind," in the words of an anonymous administration official—and the United States showed no appetite for participating in an effort to stabilize, much less rebuild, Libya in the aftermath of Qaddafi's fall. U.S. policy toward the civil war in Syria has been even more cautious. The United States has resisted not just direct military participation on behalf of the Syrian opposition (rejecting, for example, calls to establish no-fly zones and the like) but also supplying weapons. Instead, Washington has helped coordinate economic and political sanctions designed to weaken the regime while providing "nonlethal" political, intelligence, communications, and economic support to the opposition.

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Washington's diplomatic involvement in the Middle East during these years was uneven. Efforts to promote peace between Israel and the Palestinians more or less came to an end after Israel's government rebuffed Obama's pressure to rein in settlement construction, and by 2012, the administration appeared more anxious to block UN consideration of the Palestinian issue than promote progress in other venues. In early 2011, the Obama team unceremoniously pushed Hosni Mubarak to give up power in Egypt but appeared reluctant to demand changes from his successors and said little about the resistance to reform in friendly monarchies.

Policies on individual issues or cases can be debated, but the thrust of the administration's approach has mostly been sensible. The greater Middle East had come to dominate and distort American foreign and defense policy, and a course correction was called for. The Obama administration's vehicle for this correction was the announcement of a "pivot," or "rebalancing," toward Asia, a region home to many of the world's largest and fastest-growing economies and one likely to be more central than the Middle East in shaping the world's future. A recognition that China was not just rising but becoming more assertive and even bullying gave the pivot some urgency, as did the sense that without it, other countries in the region, including some U.S. friends and allies, might soon start accommodating themselves to growing Chinese dominance or mobilizing their own, possibly destabilizing efforts to resist it.

Now that most Americans want little to do with the greater Middle East, U.S. officials are finding it difficult to turn away.

By now, as the administration begins its second term, its argument for paying more attention to Asia has been widely accepted, and correctly so. The administration also faces major pressure to reduce federal spending, including on defense. But events in the greater Middle East are making it difficult for the United States to limit its involvement there. The irony is inescapable: a decade ago, Washington chose to immerse itself in the region when it did not have to, carrying out two decadelong wars of choice that involved a total of more than two million American servicemen and servicewomen and ended up costing more than 6,000 American dead, 40,000 wounded, $1.5 trillion, and enormous time and energy on the part of policymakers; but now that most Americans want little to do with the region, U.S. officials are finding it difficult to turn away. It is easy to imagine the president echoing Michael Corleone's lament in *The Godfather, Part III*: "Just when I thought I was out, they pull me back in."

THE NEW NEW MIDDLE EAST

Six and a half years ago, I wrote an essay for this magazine titled "The New Middle East." The piece argued that the era of American domination of the region was coming to an end and that the Middle East's future would be characterized by considerable but reduced U.S. influence, an imperial Iran with growing regional sway, a messy post-Saddam Iraq, a stagnant peace process, and the further spread of political Islam. This has largely come to pass, although the reality is even grimmer than the prediction. Egypt is now led by a Muslim Brotherhood president seeking to consolidate power. There is a deadly civil war going on in Syria, unrest and polarization in Bahrain, and growing signs of disquiet in Jordan. Saudi Arabia is suffering from a prolonged succession crisis, Iran is closer to possessing nuclear weapons, and the prospects for a comprehensive and durable Middle East peace have deteriorated further.

The most immediate and difficult policy choice facing the United States in the region concerns Syria. The death toll in the civil war there has risen beyond 70,000; the conflict now involves several of Syria's neighbors and threatens to spread to them. At the same time, the ouster of the Assad regime would be a major blow to its Iranian patron. But the government remains in place, the Syrian opposition is divided and its future agenda unknowable, and the sectarian nature of the conflict guarantees that any armed intervention to end the fighting would have to be large scale, long lasting, and skillfully managed to have even a chance of success. It would be hard to justify so potentially costly and difficult an undertaking for less than vital interests. This does not mean that Washington should turn its back on the human suffering in Syria. But humanitarian intervention should not be equated with or limited to direct military action, particularly with ground forces. Washington should use other tools—such as tightening economic and political sanctions against the government, providing discrete military aid to opposition groups whose views it can accept, and diplomatic initiatives—to help remove the current leadership. It should also help refugees and internally displaced persons, working with Syria's neighbors, especially Jordan and Turkey.

Closing time: a U.S. soldier leaving Baghdad, December 2011

Other challenges will arise from political turbulence in countries such as Bahrain, Jordan, and possibly even Saudi Arabia. In such situations, U.S. officials can encourage political and economic reform, but there is no guarantee that such advice will be accepted or that modest reforms would ensure stability. That said, the United States ought to give strong support to friendly governments that act responsibly and should think twice before distancing itself from regimes that fail to pursue desired reforms, given the important economic and security interests at stake and the strong possibility that successor regimes will be unfriendly and even more flawed.

Once political change has occurred—as in Egypt, Libya, and Tunisia—the United States should establish a more conditional relationship with the new government. Obama had it right when he described the new Egyptian government as neither an ally nor an adversary. In such circumstances, U.S. economic and military support (and U.S. backing for support from international financial institutions) should be tightly linked to how the new government treats American interests, its neighbors, and its citizens. U.S. officials should be willing to take their criticism public when such a course is warranted and might be effective.

REUTERS / LUCAS JACKSON

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As for Iran, the United States has many good reasons for trying to stop it from acquiring nuclear weapons. An Iran with nuclear weapons, or the capacity to acquire them quickly and easily, would be more able and willing to shape the Middle East in its anti-American image. It might be tempted to transfer nuclear weapons or material to a group such as Hezbollah, could threaten Israel, or could motivate other countries in the vicinity to develop or acquire nuclear weapons, creating a situation of enormous instability and potential destructiveness. Repeated U.S. statements that it would be "unacceptable" for Iran to go nuclear, meanwhile, mean that American credibility is now at stake as well.

At the same time, Washington should try hard to avoid another costly war of choice. Before launching or supporting a preventive strike on Iranian nuclear assets, the United States should consider what the chances are that the strike would destroy much of Iran's relevant capacity, the costs of likely retaliation, the implications for other American interests in the region, the prospects that a nuclear Iran could be confidently deterred, the possibility that the proliferation aspirations of other regional states could be managed though alternative policies, and the impact of an attack on domestic Iranian political development. It is conceivable that when all these considerations are taken into account, a strike might make sense, but this would be a high bar to clear. And if such a course were to be embarked on, it should be only after clear offers of negotiation have been made and rejected, demonstrating Iran's unwillingness to accept a reasonable compromise.

Today, the Middle East is not an arena of decisive great-power competition, nor is it home to any major power.

As for the Israeli-Palestinian divide, the prospects for advancing reconciliation and peace are poor. But this is not an argument for standing pat; bad situations can and do get worse. Ideally, the Israeli government or the Palestinian Authority would put forward a comprehensive peace proposal that would generate real excitement and support both at home and across the divide; failing that, the United States should articulate principles for establishing a sustainable peace settlement that would leave all parties better off. Hopefully, a political process and negotiations would then ensue. Hamas, which

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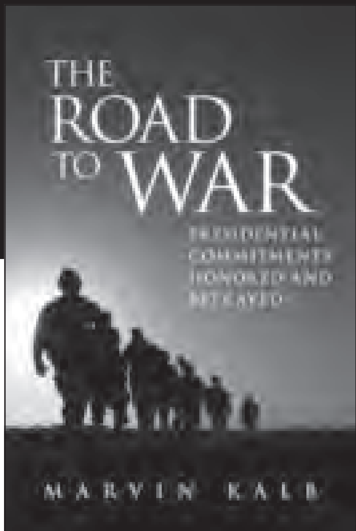

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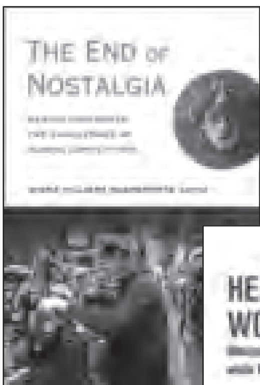

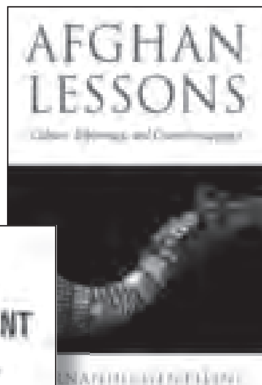

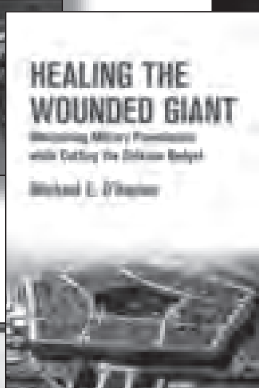

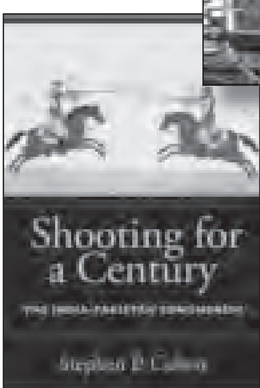

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controls Gaza, should be able to participate in negotiations only if it eschews violence and demonstrates a willingness to coexist with Israel. Washington should do what it can to bolster moderate forces in the Palestinian community and discourage Israel from engaging in activities—including, but not limited to, settlement construction—that will further undermine what few prospects remain to create a viable Palestinian state.

The United States retains important and in some cases vital interests in the Middle East, including a deep commitment to Israel's security, opposition to terrorism and the spread of nuclear weapons, and a commitment to safeguarding access to the region's energy resources. But today, the region is not an arena of decisive great-power competition, as it was at times during the Cold War, nor is it home to any major power. In addition, it is a part of the world where local realities can and often do limit the utility of military force, economic sanctions, and diplomacy. The fact that the United States is moving toward energy self-sufficiency gives it some added cushion (although not independence) from the consequences of the region's turbulence.

For more than a decade now, American foreign policy has been both distracted and distorted by the greater Middle East. But myriad policy choices lie between preoccupation and disengagement. Military interventions to overthrow hostile regimes or prop up friendly ones are becoming increasingly untenable and should almost always be avoided, given their high costs and uncertain payoffs, along with the existence of competing priorities at home and abroad. More discrete armed action—whether to help maintain the free movement of oil and gas, destroy or set back programs to develop weapons of mass destruction, or attack terrorists—should be prepared for and carried out on a case-by-case basis. Where potential partners exist, Washington should also work to build up local government capacities to maintain order and combat terrorism. U.S. officials should push governments led by the Muslim Brotherhood and other Islamist movements to follow democratic norms and procedures; failing that, Washington should do what it can to make it difficult for such groups to consolidate their power. The staple of American involvement in this part of the world should be the provision or withholding of various forms of diplomatic, economic, intelligence, and military support, to influence a country's foreign policy and, in select cases, its domestic trajectory.

WHAT REBALANCING MEANS

In contrast to the Middle East, Asia is a locus of great-power competition, where U.S. military presence and action may prove extremely useful in heading off or handling many potential problems. The Obama administration was wise to place a greater emphasis on this part of the world in 2011, although it could (and should) have done better in articulating and implementing its new course. "Pivot" implied too sharp a turn, both by suggesting too dramatic a pullback from the greater Middle East and by overlooking all that the United States has already done over the decades in East Asia. "Rebalancing," the administration's second label for its policy, better characterizes both the substance and the rationale of the new approach. The military dimensions of the new policy were also overemphasized at first. Maintaining and perhaps even selectively increasing the U.S. military presence in the region has been important, but more significant than the deployment of 2,500 marines in Australia is the direction of U.S. diplomacy vis-à-vis China and its neighbors, the availability of economic assistance to promote political and economic development in the region's poorer countries, and the ability to negotiate a new trade agreement (specifically, the Trans-Pacific Partnership) as quickly and inclusively as possible.

The best way to ensure Asia's stability is for the United States to stay active, be a reliable strategic partner, and be present in every sense and sphere, lest other countries in the region begin to accommodate their stronger neighbors or become more nationalist and aggressive themselves. Thus, it continues to make sense for a sizable American force (now 28,000 troops) to be stationed in South Korea, even though six decades have passed since the end of the Korean War and the South itself has grown rich and strong. Deterring a renewal of the conflict is a high priority, and on-the-scene American troops help achieve that. Making clear that any future conflict would end with the reunification of the entire peninsula under the South's authority should increase the North's restraint, as well as reinforce China's efforts to rein in its obstreperous ally. The United States could also try to reassure China that any reunified Korea would be nonnuclear and home to only a small number of U.S. troops, if any. Such reassurance might influence China's policy at a time when the new leadership in Beijing is showing signs of weariness with the antics of its longtime North Korean ally.

The rationale for defending South Korea is relatively straightforward given U.S. treaty commitments, but what Washington should do in several other potential scenarios in the region is less clear. The United States has obligations to Taiwan, as well as to Japan, the Philippines, and Australia, but it does not want to be drawn into a regional conflict without excellent reasons. So American foreign policy faces a delicate balancing act: it must communicate enough resolve so as to discourage aggression against its friends and allies, but it must avoid signaling unconditional support (the diplomatic version of moral hazard) lest it encourage those friends and allies to behave provocatively or recklessly. In practice, this means continuing to provide limited military support for Taiwan while dissuading it from unilateral efforts to alter the political status quo. It also means consulting closely with Japan, the Philippines, and other regional friends in order to see to it that Chinese assertiveness does not go unmet and that crises are avoided or, failing that, dampened rather than escalated.

The wisest policy for the United States in Asia is to hedge, cooperating where possible with China while maintaining a strong presence in the region.

Managing U.S.-Chinese relations in such a context will be far from easy, but doing so successfully is essential. There will be no more important challenge for U.S. diplomacy over the next generation than working to integrate China into regional and global arrangements, be it managing the economy, limiting climate change, or combating the proliferation of weapons of mass destruction and their delivery vehicles. China's help is needed to reunify Korea peacefully, prevent Iran from gaining nuclear weapons, and get Pakistan to change its ways. The original rationale for the rapprochement between Washington and Beijing (opposition to the Soviet Union) is no longer relevant, and the successor rationale (cooperating for mutual economic benefit) is too narrow to sustain harmony between the two countries by itself. Close cooperation on solving major regional and global challenges should be a crucial element in the mix.

Talk of a U.S.-Chinese "G-2" or of a "global condominium," however, is unrealistic. Chinese leaders remain focused on China's perceived internal needs and are busy raising the country's profile throughout the region. The wisest policy for the United States and others is thus to hedge, cooperating where possible with the People's Republic while maintaining a strong diplomatic, economic, and military presence in the region and a thick web of local ties. Such a stance will discourage China from acting aggressively, give local states confidence to stand up to their bigger neighbor, and provide the foundations for a robust response should China choose not to integrate into regional and global institutions and instead embark on a fundamentally nationalist and aggressive course. Still, given the high costs of containment, adopting it as policy before it is definitely required would be a mistake and might even help bring about an adversarial relationship that would serve the interests of no one.

BEYOND IRONY

The United States chose to immerse itself in the greater Middle East when it had little reason to dive in, and now that it has good reasons for limiting its involvement there, doing so has turned out to be difficult. But difficult is not impossible. There is not much to be gained by Washington's doing more in the region right now, especially if more is defined in terms of large, prolonged military interventions designed to remake societies decidedly unripe for democracy. Where the interests at stake are less than vital and the likely risks and costs of acting on their behalf outweigh the likely benefits, the United States should learn to live with outcomes that are less than optimal. In Afghanistan, for example, it would be regrettable were the Taliban to stage a recovery, but it would not necessarily be intolerable, especially if al Qaeda or its offshoots were not allowed to operate from Afghan territory. Elsewhere in the region, it would be unfortunate if the Muslim Brotherhood and its allies came to power in several more countries, but that would not normally be grounds for armed (as opposed to other kinds of) intervention. This is not isolationism but strategy.

The old order in the Middle East is disappearing. The transition is still in its early phases, and what will follow (and when) is uncertain. But political Islam is sure to play a large part. Some borders are likely to be redrawn, and some new states may even emerge. Intra- and interstate conflict are likely to be commonplace. The United States can and should try to influence the course of events, but it is unlikely to have much control, and doing more will not necessarily give it more say. Some of the wisest actions the country could take, therefore, would include insulating itself as much as possible from regional events, continuing its development of energy sources outside the Middle East, and making itself more resilient to terrorism.

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Asia, however, does call for more U.S. military, diplomatic, and economic involvement. Other regions can also stake a claim to a share of Washington's attention. Negotiating a transatlantic free-trade agreement (ideally, one involving both Canada and Mexico) would be a major economic and strategic accomplishment; so, too, would be negotiating and implementing a NAFTA 2.0 that would more closely link the United States with its immediate neighbors so as to better manage shared interests related to trade and investment, security, energy, infrastructure, and the flow of people. Narrowing the gap between global challenges and the current institutional arrangements for dealing with them is also an important issue, particularly in the case of climate change. Here and elsewhere, though, global accords with broad participation may not be possible, and it may be more realistic and rewarding to focus on agreements with narrower aims, less participation, or both.

Any U.S. rebalancing among regions and issues, finally, needs to be complemented by another sort of rebalancing, between the internal and the external, the domestic and the foreign. The United States needs to restore the foundations of American economic power so that it will once again have the resources to act freely and lead in the world, so that it can compete, so that it can discourage threats from emerging and contend with them if need be, so that it is less vulnerable to international developments it cannot control, and so that it can set an example others will want to emulate. The vast sums spent on the wars in Afghanistan and Iraq did not cause the nation's current budgetary or economic predicament, but they did contribute to it. Spending more on national security now would only make it more difficult to set things right. The goal at home must be to restore historical levels of domestic economic growth, reduce the ratio of debt to GDP, and improve the quality of the nation's infrastructure and human capital. During the next several years, facing no rival great power or existential threat, the United States is likely to enjoy something of a strategic respite. The question is whether the United States will take advantage of that respite to renew the sources of its strength or squander it through continued overreaching in the Middle East, not attending to Asia, and underinvesting at home.

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Africa's Economic Boom

Why the Pessimists and the Optimists Are Both Right

Shantayanan Devarajan and Wolfgang Fengler

Talk to experts, academics, or businesspeople about the economies of sub-Saharan Africa and you are likely to hear one of two narratives. The first is optimistic: Africa's moment is just around the corner, or has already arrived. Reasons for hope abound. Despite the global economic crisis, the region's GDP has grown rapidly, averaging almost five percent a year since 2000, and is expected to rise even faster in the years ahead. Many countries, not just the resource-rich ones, have participated in the boom: indeed, 20 states in sub-Saharan Africa that do not produce oil managed average GDP growth rates of four percent or higher between 1998 and 2008. Meanwhile, the region has begun attracting serious amounts of private capital; at $50 billion a year, such flows now exceed foreign aid.

At the same time, poverty is declining. Since 1996, the average poverty rate in sub-Saharan African countries has fallen by about one percentage point a year, and between 2005 and 2008, the portion of Africans in the region living on less than $1.25 a day fell for the first time, from 52 percent to 48 percent. If the region's stable countries continue growing at the average rates they have enjoyed for the last decade, most of them will reach a per capita gross national income of $1,000 by 2025, which the World Bank classifies as "middle income." The region has also made great strides in education and health care. Between 2000 and 2008, secondary school enrollment increased by nearly 50 percent, and over the past decade, life expectancy has increased by about ten percent.

The second narrative is more pessimistic. It casts doubt on the durability of Africa's growth and notes the depressing persistence of

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its economic troubles. Like the first view, this one is also justified by compelling evidence. For one thing, Africa's recent growth has largely followed rising commodity prices, and commodities make up the overwhelming share of its exports—never a stable prospect. Indeed, the pessimists argue that Africa is simply riding a commodities wave that is bound to crest and fall and that the region has not yet made the kind of fundamental economic changes that would protect it when the downturn arrives. The manufacturing sector in sub-Saharan Africa, for example, currently accounts for the same small share of overall GDP that it did in the 1970s. What's more, despite the overall decline in poverty, some rapidly growing countries, such as Burkina Faso, Mozambique, and Tanzania, have barely managed to reduce their poverty rates. And although most of Africa's civil wars have ended, political instability remains widespread: in the past year alone, Guinea-Bissau and Mali suffered coups d'état, renewed violence rocked the eastern Democratic Republic of the Congo, and fighting flared on the border between South Sudan and Sudan. At present, about a third of sub-Saharan African countries are in the throes of violent conflict.

More mundane problems also take a heavy toll. Much of Africa suffers from rampant corruption, and most of its infrastructure is in poor condition. Many governments struggle to provide basic services: teachers in Tanzania's public primary schools are absent 23 percent of the time, and government-employed doctors in Senegal spend an average of only 39 minutes a day seeing patients. Such deficiencies will become only more pronounced as Africa's population booms.

And then there's the fact that African countries, especially those that are rich in resources, often fall prey to what the economist Daron Acemoglu and the political scientist James Robinson have termed "extractive institutions": policies and practices that are designed to capture the wealth and resources of a society for the benefit of a small but politically powerful elite. One result is staggering inequality, the effects of which are often masked by positive growth statistics.

What should one make of all the contradictory evidence? At first glance, these two narratives seem irreconcilable. It turns out, however, that both are right, or at least reflect aspects of a more complex reality, which neither fully captures. The skeptics focus so much on the region's commodity exports that they fail to grasp the extent to which its recent growth is a result of economic reforms (many of which were necessitated by the misguided policies of the past). The optimists, meanwhile, underestimate the degree to which the region's remaining problems—such as sclerotic institutions, low levels of education, and substandard health care—reflect government failures that will be very difficult to overcome because they are deeply rooted in political conflict.

However, even if both narratives are reductive, the optimists' view of Africa's future is ultimately closer to the mark and more likely to be borne out by developments in the coming decades. Africa will continue to face daunting obstacles on its ongoing path to prosperity, especially when it comes to improving its human capital: the education, skills, and health of its population. But the success of recent reforms and the increased openness of its societies, fueled in part by new information and communications technologies, give Africa a good chance of enjoying sustained growth and poverty reduction in the decades to come.

BOUNCING BACK

After several lost decades, during which debt, disease, famine, and war held back Africa's development, things began to improve in the late 1990s. So far, the gains have proved durable. Despite the global financial crisis of 2008 and its lingering effects, the economies of sub-Saharan Africa grew at an average of 4.7 percent a year between 2000 and 2011. This robust performance has resulted in the first overall decline in the region's poverty rate since the 1970s, from 58 percent in 1999 to 47.5 percent in 2008. These positive trends have been widespread, with every part of the region benefiting. And the change in fortunes has not been limited to certain kinds of economies: oil exporters such as Angola and Nigeria have boomed, but so, too, have oil importers such as Ethiopia and Rwanda. Not all states have benefited equally, of course; fragile states such as Burundi and the Central African Republic, which are still struggling to recover from violent conflicts, have experienced only modest growth.

Africa's rebound has had many causes, including an increase in external assistance (partly from debt relief), a buoyant global economy until 2008, and high commodity prices. But the most significant has been an improvement in macroeconomic policies across all of sub-Saharan Africa, which has inspired confidence in investors and consumers. According to the World Bank's most recent annual "Country Policy and Institutional Assessment," the region's overall macroeconomic performance is now on par with that of developing countries in other regions. With stronger macroeconomic policies,

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African countries have taken advantage of the commodities boom that peaked before the global economic crisis and avoided a collapse when commodity prices plummeted. For example, in early 2008, when the international price of oil rose above $100 a barrel, some oil exporters in the region, such as Angola, Gabon, and Nigeria, planned their budgets as if oil prices were only $65 a barrel. When the price ultimately did fall to that level, in the fall of 2008, those countries were not caught off-guard and had a cushion to fall back on.

During the crisis, most countries continued with prudent economic policies; some even accelerated their reforms. Partly as a result of such efforts, African economies kept expanding throughout the global recession, and sub-Saharan Africa has maintained an average annual growth rate of nearly five percent since then, despite continued volatility in the global economy.

THE POLITICS OF GROWTH

In large part, the vast improvement in macroeconomic policy that began in the late 1990s can be traced to two factors. First, with the end of the Cold War, politics in Africa became freer, more vibrant, and more open to previously marginalized groups. As support from the United States or the Soviet Union diminished, autocratic regimes began to lose their monopolistic grips on power. Calls for multiparty democracy spread, and countries throughout the region held competitive elections. Such openings were limited, to be sure, but they provided a voice to many segments of African societies that had previously been marginalized, such as poor farmers in rural areas. Since the mid-1990s, those groups have benefited as politics has become more competitive, media have become freer, and communications technology has rapidly spread, especially since 2000. In several countries, including Ghana, Nigeria, Tanzania, and Uganda, these political changes brought to power more competent leaders, willing to place technocrats trained in modern economics in senior positions in the government, replacing the politically connected but less well-trained bureaucrats who often held similar posts in previous regimes.

Political liberalization also had a less direct but still profound effect on macroeconomic policy. In the past, many authoritarian African regimes kept their exchange rates artificially high, benefiting the small groups of urban elites on whom the regimes relied by making it easier for them to buy food and imported luxury goods. This policy amounted to a transfer of wealth from the rural poor to the urban rich, since the high exchange rates made it harder for farmers to export their crops. With the introduction of competitive elections, governments realized that they needed the support of the rural poor, who constitute a majority in most African countries, and so they allowed their countries' exchange rates to become more competitive. As a result, agricultural productivity and output rose as farmers received higher prices for their produce.

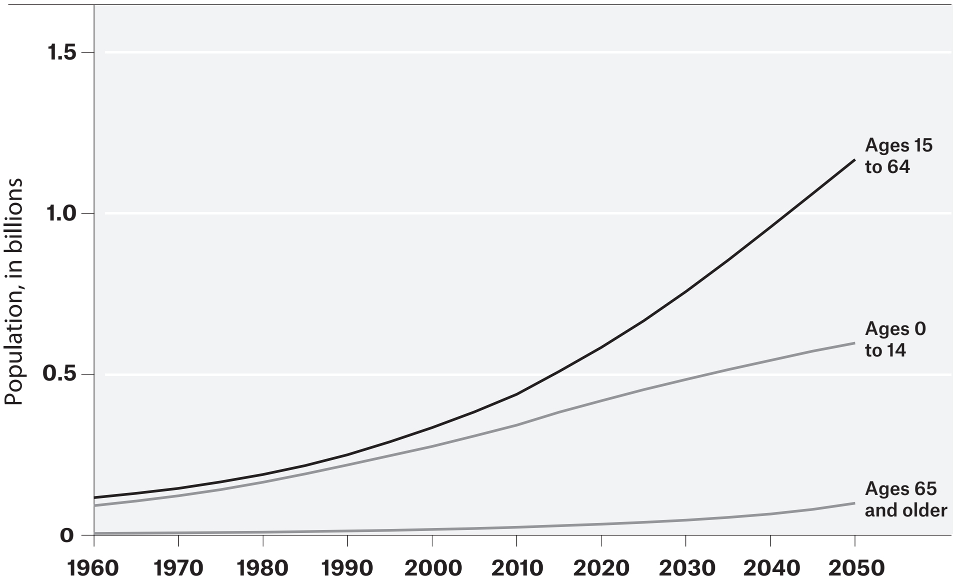
The second important factor that contributed to the improvement of African macroeconomic policy in the 1990s also involved the democratization of policymaking—spurred, in this case, by external intervention. When African countries were desperate for international aid in the 1980s, donors made their financial support contingent on the adoption of reform programs that African governments designed with input from the World Bank and the International Monetary Fund. But beginning in 1999, potential donors began to require African governments seeking debt relief to also consult with their own citizens—civil-society groups, businesses, community organizations—as they crafted policies to help the poor. This new process increased the chances that local citizens would buy into the policies. In the early 1990s, when international donors proposed changes to Zambia's system for pricing maize, the agriculture ministry rejected the changes, and they were never put in place, leading to periodic food shortages. A decade later, the government proposed similar reforms, but only after conducting consultations with a wide variety of Zambians whom the changes would affect. As a result, the public generally accepted the ideas; the reforms were implemented, and shortages were minimized.

Skeptics fail to grasp the extent to which Africa's recent growth is a result of economic reforms.

Economic reforms, however, are not the only cause of Africa's growth surge. Three other factors have started to play a major role: demographic changes, urbanization, and technological advances. Since 1960, the dawn of the postcolonial era, the population of sub-Saharan Africa has grown rapidly, from fewer than 250 million people to around 900 million today. But around 2000, fertility rates began to decline, and so did child mortality rates. Consequently, working-age adults have come to constitute the fastest-growing segment of the region's societies. This shift has created a potential demographic

Africa's Demographic Dividend

Population Trends by Age Group



SOURCE: World Bank estimates based on the UN's 2012 *World Population Prospects.*

dividend, since economies improve when there is a healthy ratio of working-age adults to dependents.

No country or region, meanwhile, has ever reached what the World Bank considers high-income status with low levels of urbanization. African populations have traditionally been mostly rural, but the cities of sub-Saharan Africa are growing at astonishing rates. The trend is such that by 2033, most of the region's inhabitants will live in cities—as most of the world's population already does. Firms have exploited this increased urban consumer base to enjoy economies of scale, benefiting themselves and consumers, who now have access to low-cost goods.

Perhaps the most visible sign of Africa's economic reemergence is the so-called mobile revolution. Cell phones have become ubiquitous, even in the poorest places. The change can be traced back to the reforms of the late 1990s, when several countries began opening up their telecommunications sectors. At the same time, technological breakthroughs have made low-cost cell phones affordable to a large number of Africans. In many African countries, the calling rates are among the lowest in the world. The explosion in mobile technology has spurred innovations such as M-Pesa, the mobile-money system widely embraced in Kenya and Tanzania, which allows users to make purchases and send cash transfers using their cell phones. In many countries, the spread of mobile devices has also allowed the information and communications sectors to become important parts of the economy; in Kenya, these industries are growing at an average of 20 percent each year, and in 2010, they accounted for five percent of the country's GDP.

Optimists have seized on all these trends to make the case that this African economic boom will prove sustainable. Much of the progress has resulted from political changes. But the remaining obstacles to a more lasting transformation of African economies will also depend on politics. And those problems might prove far more difficult to overcome.

MORE MONEY, MORE PROBLEMS

Africa faces a number of deep development challenges—in economic growth, poverty reduction, human development, and governance—that at the very least call into question the durability of the gains made during the last 15 years, and could even undermine them. Despite Africa's recent growth, there are few signs of what economists refer to as structural transformation: the shift from low-productivity agriculture to higher-productivity manufacturing and services. Sub-Saharan Africa's manufacturing sector remains dormant, and some countries, such as South Africa, have even experienced deindustrialization. And while there has been an increase in trade among the region's countries, their connections to the world economy remain weak and concentrated in just a few sectors, especially commodities and natural resources. These development challenges are the result of government failures, which helps explain their persistence amid rapid growth—but also points to possible solutions.

Perhaps none of these problems is more troubling than the seeming inability of African countries, including the fastest-growing economies, to convert growth into progress in fighting poverty. Despite years of significant oil revenues, the governments of Angola, Gabon, and Nigeria have not used their newfound wealth to significantly improve the welfare of their poor citizens. More troubling is the fact that during the past five years, some non-oil-producing countries, such as Burkina Faso, Mozambique, and Tanzania, have managed to reduce their poverty rates by only three or four percentage points, despite enjoying annual economic growth rates of around seven percent. That growth was very clearly driven by economic reforms, not the commodities boom. The persistence of poverty in those three countries is now providing rhetorical ammunition to the political elites who benefited from the misguided policies of the past, resisted reforms, and now want to reverse the changes. It also confirms the worst suspicions of critics of economic liberalization, who can point to these poverty numbers to argue that pro-trade reforms have simply made the rich richer and the poor poorer.

A more careful look at these countries, however, shows that the problem is not too much reform but too little. Specifically, the reforms have generated growth in only some sectors, especially services, with industries such as retail and wholesale trade, telecommunications, and public administration benefiting the most. But those industries provide relatively few jobs for low-skilled workers, and the reforms did not address the sectors in which the poor actually work. For example, in Mozambique, growth has come from large investment projects in mining that were made possible by changes in the country's foreign investment regulations. Such projects have increased aluminum exports and boosted GDP but created only 2,000 direct jobs. Most of Mozambique's labor force, meanwhile, is employed by small farms or household enterprises—parts of the economy in which productivity is growing very slowly.

In cases where there have been reforms in industries that employ the poor, corruption has sometimes prevented the benefits from accruing to the intended recipients. Tanzania, for example, has spent heavily to support its agriculture industry, especially on fertilizer subsidies. In 2009, to better target and streamline the subsidies, the government introduced a market-like system of vouchers: farmers could use government-issued vouchers to purchase fertilizers, and sellers would be reimbursed by the government. Unfortunately, local elected officials ended up gaining control of about 60 percent of the vouchers, making it difficult for poor farmers to access the government support.

IF YOU BUILD IT, WILL THEY COME?

Even in countries that have achieved both rapid growth and poverty reduction, such as Ethiopia, Ghana, and Rwanda, there has been remarkably little structural transformation. The share of GDP represented by manufacturing, for example, is scarcely higher than it was before these countries started enjoying serious growth. There are many reasons why competitive manufacturing has not taken off in Africa, but most of them revolve around the high costs of production. Even though per capita incomes in Africa are among the lowest in the world, wages are relatively high and unit labor costs are even higher.

A major explanation for these high costs is the poor state of infrastructure. All across sub-Saharan Africa, anyone trying to do business is constantly stymied by power cuts, impassable roads, and leaky water pipes. Behind each of these infrastructure problems is a government failure that, although harmful to the economy, reflects a political equilibrium that will be difficult to undo simply by building new infrastructure.

Road transportation offers a good illustration of this problem. Exporters in the region face some of the highest transport prices in the world, especially when trying to ship goods from landlocked countries to a port. But a 2009 study published by the World Bank showed that vehicle operating costs along the four main transport corridors in sub-Saharan Africa are no higher than those in France. The difference between prices and vehicle operating costs is explained by the massive profit margins enjoyed by trucking companies in sub-Saharan Africa, some of which are close to 100 percent. The companies are able to charge a hefty premium thanks to regulations in most African countries that prohibit would-be competitors from entering the trucking industry. These regulations were introduced 40 years ago, when African governments, reflecting economic thinking at the time, viewed trucking as a natural monopoly because a single company could more easily ensure that trucks rode at full capacity. Not surprisingly, the outdated rules are now difficult to revoke because decades of high profits have provided the trucking industry with plenty of funds to pay for lobbying to maintain the status quo. This problem is especially acute in places where the trucking business is controlled by politically connected families.

Optimists underestimate the degree to which the region's problems reflect deeply rooted political conflicts.

The region's water and electricity deficits also stem from political problems. Governments typically set prices for water and electricity that are below cost, with the intention of protecting the poor. As a result, the water and electrical utilities require government subsidies to operate. This relationship allows politicians to find ways to influence how the utilities are run and who receives their services. Officials

Can you hear me now? Swaziland, August 2010

REUTERS / SIPHIWE SIBEKO

often give priority treatment to neighborhoods they favor, which are not necessarily where the poor live. Furthermore, the subsidies rarely cover costs, so the utilities neglect maintenance, leading to leaky pipes and power outages. The rich opt out of the shoddy system altogether and use their own water tanks and electricity generators. The poor in underserved areas must rely on candles for lighting and buy water from private vendors, which costs multiple times the metered rates. One result of this political distortion is that since 2000, the percentage of households with access to water has declined in almost every urban area of Africa.

In addition to these deficiencies in infrastructure, a host of other factors serve to drive up the cost of doing business in the region, including the fact that African countries have some of the most complex and least transparent business regulations in the world. Like the distortions that shape transportation and infrastructure, these regulations did not come about by accident, nor is their persistence due to a lack of government capacity: they exist in order to serve specific political interests. If these interests are sufficiently powerful, they can block attempts at reform.

But simply improving the business climate will not lead to structural transformation. The reason is that business regulations mainly affect those who work in the private wage-employment sector, a group that accounts for less than ten percent of the region's labor force. Most

Africans work for small farms or household enterprises, in what is often called the informal sector. This is unlikely to change in the medium term: in Uganda, for instance, even under the most optimistic assumptions, over 70 percent of the labor force will still be in the informal sector by 2020.

For that reason, structural transformation will depend not only on creating more wage and salary jobs but also on increasing the productivity of the informal sector. Improving infrastructure and reforming regulations will help to some extent. But more important are measures that can improve the skills of workers in the informal sector, in which those with barely any education are disproportionately concentrated. By increasing the skills of such workers, African governments can increase the productivity of small farms and household enterprises—and the incomes of the people who work there.

RAISING HUMAN CAPITAL

Without a doubt, it will prove difficult to improve the skills of Africa's labor force enough to propel structural transformation. The fact is that despite some catch-up over the last decade, the countries of sub-Saharan Africa still have the lowest levels of human capital in the world. In one sense, that is not surprising: after all, at the time they won independence, most of these countries had very few people with higher education. Africa also has been buffeted by an onslaught of public health crises, including the world's worst manifestation of the HIV/AIDS pandemic.

The region's lack of sufficiently educated, skilled, healthy workers is even more distressing because for decades, donors and African taxpayers alike have spent considerable resources on health and education; yet they have little to show for it. Even in places where governments and foreign donors have improved access to schools and health clinics, there has been limited improvement in quality. Postapartheid South Africa, for instance, has increased its public spending on schools to redress the inequitable allocations of the past. Enrollment rates have risen dramatically, but learning outcomes have hardly changed, and only two in five young adults complete secondary school.

At least three factors explain this phenomenon. First, resources allocated to addressing the problems of poor people do not always reach their intended recipients. A landmark 2001 World Bank study on public spending showed that in Uganda, only 13 percent of the nonwage resources allocated to public primary education actually found their way to schools. Similarly, a 2009 study on health spending in Chad showed that less than one percent of nonwage spending ever arrived at primary clinics. Second, even when resources do reach schools or clinics, there are often no teachers or doctors there to use them. A recent report by the African Economic Research Consortium found that health workers in Senegal and Tanzania were absent 20 percent and 21 percent of the time, respectively. Finally, even when providers are present, the quality of their services is exceedingly poor. According to a 2009 World Bank review of public expenditures, teachers in Uganda spend less than 20 percent of class time teaching. Teachers in Tanzania spend slightly more time on instruction, but only 11 percent of them have what education experts consider to be the minimum level of language skills required for the job. The situation in the health sector is worse: in Tanzania, the average total amount of time doctors spend seeing patients is only 29 minutes per day.

Recent reforms and the increased openness of African societies give the region a good chance of enjoying sustained growth.

These failures to deliver services are not simply the result of unprofessional conduct; underlying them is the fact that basic public services have been stolen by or diverted to political elites. The leakage of public funds intended for education and health care is the most straightforward example. Since these are expenditures for things other than salaries, officials are easily able to alter the amount of funding that is actually distributed. As the economists Ritva Reinikka and Jakob Svensson showed in a 2004 study, the amount of funding an African school receives likely depends on the principal's ties to a government bureaucrat or a local politician. The poor performance of service providers is similarly bound up in this form of patronage. Many teachers, for example, also serve as political operatives: relatively well-educated people who run election campaigns for local politicians and are then rewarded with teaching jobs, positions for which they are not necessarily qualified and that they do not always take very seriously.

The way political forces can thwart the delivery of services was illustrated in a recent study published by the Center for Global

Development. The study analyzed the results of an experiment in Kenya that aimed to reduce teacher absenteeism by replacing salaried teachers with contract workers. In some cases, the plan was administered by a nongovernmental organization; in others, the government handled the hiring. Student learning outcomes improved when the plan was implemented by nongovernmental organizations but did not in the government-run cases. The study's authors concluded that the difference stemmed from the ability of teachers' unions to lobby the government to weaken the plan in various ways: for example, by delegating oversight to district officials who were not ultimately accountable to the government. The nongovernmental organizations did not succumb to the same pressure. The larger lesson is that efforts to solve problems such as teacher absenteeism with technical solutions, such as introducing contract teachers or electronic monitoring, will not succeed if the political system is not aligned with the ultimate goal.

REASONS FOR OPTIMISM

It can be hard to stay optimistic about Africa's future when one considers the political pathologies that stand in the way of improving its human capital. But it is crucial to recall that the recent growth in sub-Saharan African economies resulted from fixing distorted macroeconomic policies that seemed irredeemable only 15 years ago. Triggered by reactions to the debt crises of the 1980s, the collapse of the Soviet Union, and the political liberalization of the 1990s, a regional consensus formed in favor of prudent macroeconomic policies. Those policies delivered growth, which created political support for further reforms, even during the global economic crisis of recent years.

The region now finds itself at another inflection point. Luckily, today, the combination of democratization, demographic change, rapid urbanization, and increasing levels of education has substantially altered policymaking processes, mostly for the better. There is now more political space to voice alternative views and challenge government policies. Even those who are opposed to reforms are less likely to resist if they feel they have been consulted. Moreover, thanks to better economic policies, foreign donors are less compelled to impose reforms from the outside, which creates even more space for homegrown reform efforts.

The almost complete connectedness of the region through cell phones will also aid reforms and structural transformation. Cell phones, by helping spread information of all kinds more quickly, enable poor people to learn about such issues as the regressive nature of government subsidies and the anti-poor bias of infrastructure spending. They also allow people to find out what their peers are thinking, greatly lowering the costs of mobilizing collective action. The spread of communications technology has also made it easier for politicians to discover what citizens are thinking—whether they want to or not—meaning that the voices of people living in marginalized areas will be heard more clearly in national capitals.

Whether one sees Africa's glass as half-full or half-empty depends on one's belief in the possibility of political change. The obstacles to durable growth in the region are primarily political. That hardly means that they will be easy to solve, as even a cursory glance at the troubled record of governance in postindependence Africa makes clear. But it does mean that they are not intractable. Sub-Saharan Africa's recent history of political change and reform leading to growth justifies a positive outlook. Believing in a more prosperous African future requires a healthy dose of optimism, but not a leap of faith.

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The Clinton Legacy

How Will History Judge the Soft-Power Secretary of State?

Michael Hirsh

In late January, only a few days after his second inauguration, U.S. President Barack Obama delivered a surprisingly fond farewell to his old political rival Hillary Clinton. Sitting for a joint interview with the outgoing secretary of state on *60 Minutes*, Obama lauded their "great collaboration." He continued: "I just wanted to have a chance to publicly say thank you, because I think Hillary will go down as one of the finest secretaries of state we've had."

The president had reason to be grateful. His Lincolnesque effort to create a team of rivals had paid off, thanks largely to Clinton's own efforts at reconciliation. During her four years in office, Clinton, displaying impressive humility and self-discipline for an ambitious politician, managed to put one of the fiercest presidential primary battles in U.S. history behind her. Once the runaway favorite to win her party's nomination, Clinton transformed herself into a loyal messenger and passionate defender of the Obama faith.

But neither Obama's gratitude nor Clinton's graciousness should cloud history's judgment. By any standard measure of diplomacy, Clinton will be remembered as a highly competent secretary of state, but not a great one. Despite her considerable star power around the world, her popularity at home, and her reputation for being on the right side of most issues, she left office without a signature doctrine, strategy, or diplomatic triumph. It is a stretch to include Clinton in the company of John Quincy Adams, George Marshall, Dean Acheson, and Henry Kissinger—some of the great secretaries of state who profoundly changed U.S. foreign policy. Although she has avoided all talk of what comes next, it may well be that Clinton's tenure as diplomat

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in chief will someday be viewed as a steppingstone to the presidency, as it was for Thomas Jefferson and Adams.

It is not that Clinton can't point to some notable and enduring achievements. Because of her worldwide popularity and tireless travel—she set a new record for a secretary of state by visiting 112 countries—Clinton helped undo the damage that the habitual unilateralism of the George W. Bush administration had done to the global image of the United States. As Clinton put it to me in a 2010 interview, "My big-picture commitment is to restore American leadership, and I think that's about as big a job as you can get. And everything I've done is in furtherance of that."

This goal was shared by the whole administration. In his first term, Obama faced the daunting task of winding down two major wars in Iraq and Afghanistan. He needed to contend with the reduction in U.S. leverage and prestige following the strategic mistakes and economic collapse of the Bush years. As a result, the administration was keen on emphasizing the "soft" diplomacy of U.S. image building and values promotion over "hard," or coercive, diplomacy, which necessitates direct involvement in conflicts.

Despite her frustrations with a White House that often did not heed her advice, Clinton elevated this effort to levels unseen in previous administrations. Indeed, her most lasting legacy will likely be the way that she thrust soft diplomacy to the forefront of U.S. foreign policy. By speaking out about Internet freedom, women's rights, public health, and economic issues everywhere she went, Clinton sought to transcend traditional government-to-government contacts. She set out to create—or at least dramatically expand in scope—a new kind of people-to-people diplomacy, one designed to extend Washington's influence in an Internet-driven world in which popular uprisings, such as the Arab Spring, could quickly uproot the traditional relationships between governments.

Beyond that, Clinton often played the realist hawk in an administration that started with overconfidence about its president's transformational powers. In 2009, she allied with Defense Secretary Robert Gates to press for a 30,000-troop surge to address the chaos in Afghanistan, even though the president's instincts were for a far smaller escalation. Later that year, when Obama had nothing to show for offering an outstretched hand to Tehran (a policy that Clinton had encouraged), she prodded the president into imposing unprecedentedly severe sanctions on Iran. In 2011, she corralled a troupe of advisers, including Susan Rice, the U.S. ambassador to the United Nations, to convince Obama to support a NATO-led intervention in Libya. And it was Clinton's State Department that was mainly responsible for the administration's attempt at a strategic "pivot" to Asia, designed largely to counter China's growing influence. Clinton personally led the way with a historic trip that brought long-isolated Myanmar (also called Burma) into the fold of American partners, with a deft mix of realpolitik and democracy promotion. Clinton also became the caretaker of major relationships with other heads of state with whom the somewhat aloof U.S. president engaged only sporadically.

The effectiveness of Clinton's approach is as yet unclear. The outcome of the Arab Spring appears to be increasingly Islamist and anti-American, and among the legacies Clinton bequeathed to her successor, John Kerry, is a resurgent jihadist movement in the Arab world—including an al Qaeda that is "on the rise," as she admitted only days before her departure. U.S. relations are deteriorating with Pakistan and Russia, and it did not help that Clinton avoided involvement in direct negotiations with those countries over critical issues that divided them from Washington. Nevertheless, a global Pew Research Center poll and other international surveys have shown a substantial improvement in U.S. standing in world opinion, especially among Europeans. So there can be little doubt that Clinton restored some luster to an American brand badly tarnished by the previous administration.

GOING SOFT

Like George Shultz, Ronald Reagan's revered secretary of state, Clinton regularly stressed that diplomacy and economic development must go hand in hand. She preached that helping partner countries achieve social stability—built on progress on health, food security, and women's rights—would create stronger alliances and new paths to solving traditional foreign policy problems. In a January 2011 speech in Qatar, just as the early signs of the Arab Spring were starting to appear, Clinton issued what now looks like a prescient admonition to Arab leaders, taking them to task for failing to "build a future that your young people will believe in, stay for, and defend." She said that the Arab people had "grown tired of corrupt institutions and a stagnant political order," and she warned the regimes that their "foundations [were] sinking into the sand."

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Overshadowed: Hillary Clinton, Washington, D.C., January 2007

REUTERS / LARRY DOWNING

Clinton then took her message directly to the people in the countries she visited. She held regular town-hall meetings abroad, speaking not just to the international press but also to local citizens and local media, an approach that may have helped ease some anti-Americanism in Islamic countries (although few polls show it yet). "I think that really is new," her former policy-planning chief, the Princeton scholar Anne-Marie Slaughter, told me in a recent interview. "She's the one who kept saying, 'You've got to have government-to-government, government-to-people, and people-to-people contacts.' She's been very clear that the people of different countries are not just the object of policies; they are active agents of change and evolution. And, above all, of problem solving."

A test case for whether the Clinton model of diplomacy can work going forward may be the current turmoil in Egypt, where President Hosni Mubarak's successor, the Muslim Brotherhood's Mohamed Morsi, appears to be wavering in his commitment to democracy. Although Washington deals mainly with Morsi's government and the Egyptian military, the State Department has fostered ties between nongovernmental organizations in the United States and Egypt that focus on education and development. "One way to think about it is that because of her integrated framework, we always have someone to call," said Slaughter. "Mubarak fell and the Muslim Brotherhood is in power, but now we have contacts with women's groups, techies, and entrepreneurs through various programs. If diplomacy is building relationships that you can call on in a crisis, then she has developed the frame." Now, a power-grabbing Morsi finds himself under pressure to moderate his actions not just from U.S. government officials but also from grass-roots pro-democracy organizations supported or trained by Washington.

Even as she helped design the realpolitik pivot to Asia, Clinton also pushed this people-to-people approach with China. She promoted the 100,000 Strong Initiative, a program aimed at dramatically increasing the number of Americans studying at Chinese universities (ten times as many Chinese study in the United States). She emphasized economic development in Central and South Asia, where she sought to stabilize Afghanistan and counter Pakistani recalcitrance by proposing a "New Silk Road" that would promote new trade routes in order to induce Islamabad to cooperate more with Kabul. And when Obama announced in February his plan to negotiate a transatlantic free-trade pact with Europe, he was embracing a proposal pushed by his former secretary of state.

In the end, Clinton shied away from the kind of hard diplomacy that traditionalists identify with foreign policy greatness.

Yet in the end, although Clinton excelled at soft diplomacy, she shied away from the kind of hard diplomacy that traditionalists identify with foreign policy greatness. One thinks of Adams' authorship of the Monroe Doctrine and the Transcontinental Treaty with Spain, Acheson's aggressive championing of containment, Kissinger's shuttle diplomacy between the Arabs and the Israelis and his clever exploitation of the Sino-Soviet split. Some critics have interpreted Clinton's more modest agenda as stemming from political caution. In a recent assessment, the journalist David Rohde quoted a State Department official who suggested that Clinton's hesitation to get personally involved in conflicts was related to her future presidential ambitions.

Indeed, Clinton consistently avoided getting her hands dirty with direct mediation. She happily agreed to leave key negotiations in crisis spots to special envoys, charging George Mitchell with overseeing the Israeli-Palestinian portfolio and relying on Richard Holbrooke to bring about a political settlement in Afghanistan and Pakistan. She rarely stepped in as each of them failed to make much headway. Other pressing

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Georgetown University
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- *Food Security in the Middle East* (Hurst, 2013).
- *The Gulf Monarchies and Climate Change* (Hurst, 2012).
- *Migrant Labor in the Persian Gulf* (Columbia University Press, 2012).
- *The Nuclear Question in the Middle East* (Columbia University Press, 2012).
- *The Political Economy of the Persian Gulf* (Columbia University Press, 2012).
- *International Politics of the Persian Gulf* (Syracuse University Press, 2011).
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issues, such as North Korea's nuclear program, she simply put off. Her policy of "strategic patience" with North Korea, under which Washington refused to offer any new incentives to Pyongyang in the hopes of restarting nuclear disarmament talks, did not work. The problem festered for four years, and as soon as Clinton left office, the North Korean leader Kim Jong Un greeted her successor with yet another nuclear test.

It may be unfair to fault Clinton for the deadly attack on U.S. personnel in Benghazi, Libya, which occurred last September. Nonetheless, she became the first secretary of state to lose an ambassador in the field since Adolph Dubs was killed in 1979, while Cyrus Vance held the office. And Clinton does deserve some blame for what she herself admitted in Senate testimony about the incident: that she and her State Department colleagues were taken by surprise by the rise of new jihadist groups in Libya and the region. "We've got to have a better strategy," she said. "The Arab Spring has ushered in a time when al Qaeda is on the rise." Clinton thus appeared to concede what the former Republican presidential candidate Mitt Romney had relentlessly argued during the 2012 campaign: that the terrorist group responsible for 9/11 and its offshoots are not close to being defeated.

In her farewell testimony, Clinton spoke of the "Pandora's box" of weapons flowing through countries in the Middle East and North Africa. And that Pandora's box may yield even worse ills on Kerry's watch. The post-Qaddafi chaos in Libya, the civil war in Syria, the emergence of a terrorist sanctuary in northern Mali—all these developments have taken the Obama administration by surprise. Some U.S. officials now fear that these countries could break up or turn into permanently strife-ridden lands that resemble the postcolonial countries of Africa, such as Somalia or the Democratic Republic of the Congo, where tribes and ethnic groups never stop warring even though the countries' borders remain superficially intact.

The spreading violence in the Middle East and North Africa could come to be seen as one of Clinton's grimmest legacies. It all but ensures that however much Kerry tries to focus on Asia, he will likely get pulled back into the Middle Eastern mire that the Obama administration's first-term national security team left him. Indeed, if any one situation demonstrates the potential costs of the administration's caution in the region, it is that in Syria, where the president's decision to avoid arming the rebels has struck critics as inaction in the face of a terrible humanitarian crisis and a conflict that could destabilize the entire region.

IMPROV DRAMA

On a number of critical issues, anything resembling a larger strategy was often hard to find in Obama's first term. In a recent conversation with me, Zbigniew Brzezinski, the dean of the Democratic national security establishment, criticized the administration's foreign policy for being "improvisational." To be fair, the improvisation was sometimes effective. In one case, Obama and Clinton barged into a meeting at the 2009 global climate change talks in Copenhagen and forced the Chinese president to agree to a nonbinding pact under which rich and poor countries alike pledged to curb their carbon emissions. And last year, Clinton displayed cleverness and agility in negotiating the release of the Chinese dissident Chen Guangcheng, who had taken refuge in the U.S. embassy in Beijing. But those were rare instances of successful impromptu mediation.

At other times when Obama's foreign policy team was forced to act on its feet, the results were not as impressive. The administration failed to anticipate the increasingly Islamist bent of the countries whose regimes were ousted in the Arab Spring, and it has been slow in formulating a coordinated response to the abuses against democracy by Morsi and other Islamist leaders. Instead, Obama appears to be approaching Morsi in much the same realpolitik way he once dealt with Mubarak—paying lip service to democracy and human rights but essentially leaving Egypt's internal chaos to sort itself out. The democracy expert Larry Diamond told me in an interview that he saw "very little sign—to be blunt, no sign—of any coherent strategy to try to defend and sustain the very, very tentative democratic progress in Egypt or to . . . create a more facilitating environment." Clinton's State Department did not develop a strategic framework for addressing the Islamist middle phase that the Arab world appears to be undergoing on its way to modernization and democracy—a transition that was entirely predictable given Islam's traditionally dominant role in Arab society. In her final testimony before the Senate, commenting on the new wave of jihadism in the region, Clinton said, "We've got to get our act together." It was a helpless remark that recalled former U.S. Defense Secretary Donald Rumsfeld's notorious lament from a decade ago: "We lack the metrics to know if we are winning or losing the global war on terror."

Still, one must ask: Could any secretary of state realistically have done a better job grappling with such unexpected unrest? Probably

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not. “Anybody would be improvising now,” Reuel Marc Gerecht, a conservative Middle East analyst, told me. “I wouldn’t fault the administration too much.” Clinton’s defenders question how any overarching strategy could have addressed something as chaotic and complex as the Arab uprisings. James Steinberg, a former deputy secretary of state and former Clinton aide, has invoked the famous line attributed to the former Chinese leader Zhou Enlai, who, when asked in the 1970s about the significance of the French Revolution, supposedly replied, “It’s too soon to tell.” “Traditional ideas about grand strategy don’t really capture the challenge of dealing with broad popular movements,” Steinberg said to me in a recent interview. “It’s less about a strategy and more about how do you position the U.S. to positively take advantage of it?”

The diplomatic world keeps pining for the next George Kennan, someone who might sum up the country’s overall mission in a strategic concept as simple as containment.

It’s a fair point. The diplomatic world keeps pining for the next George Kennan, someone who might sum up the country’s overall mission in a strategic concept as simple as containment. But Kennan, in truth, had things relatively easy compared with today’s policymakers. He faced a bipolar world consisting of two utterly opposed ideological systems and an adversary whose strengths and weaknesses could be analyzed in a static way. Twenty-first-century strategists confront a far more complex and multidimensional world, one in which a lone terrorist or hacker can threaten a superpower.

To its detractors, the Obama administration has looked consistently weak and indecisive in its response to the Arab Spring. But these critics generally fail to offer appealing alternatives. Obama and Clinton have had good reasons, for example, to avoid a large-scale intervention in Syria. After a decade of war, Washington cannot afford to look like it is interfering, yet again, in a region that has already seen far too much Western meddling. Obama’s concerns that U.S.-supplied weapons would find their way to jihadist militants are equally valid.

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WHO IS OBAMA'S KISSINGER?

For four years, Clinton had to spend a lot of time and energy simply making herself heard on Pennsylvania Avenue. It was often as hard for her to persuade the White House to take her advice as it was to deal with foreign governments. Although Clinton sometimes got her way and served as the administration's public face, Obama and a coterie of devoted national security aides—including Denis McDonough, Obama's former deputy national security adviser and now the White House chief of staff—were the main authors of the administration's foreign policy. And despite Obama's kind parting words, Clinton never really developed warm personal ties to her former rival. This gap made her job much harder, since in Washington, real power is measured in presidential face time, and a close relationship between the White House and the State Department is critical to a secretary of state's success. (Acheson, fortunate enough to be Harry Truman's alter ego, used to say that he had "a constituency of one.")

Her distance from Obama, by most accounts, was a source of frustration and disappointment for Clinton, especially at the beginning of her tenure. She likely felt shortchanged by the difference between her original job description and the reality that emerged. In the fall of 2008, when Obama surprised Clinton by asking her to take the job, he told her that he had his hands full with the collapsing economy and needed someone of her global stature to take care of foreign policy. The implication was that Clinton would be the dominant figure.

But that never happened. Early in Obama's first term, a senior aide to Clinton told me that "the biggest issue still unresolved in the Obama administration is, can there be more than one star?" The answer, it soon became clear, was no; the only star was going to be Obama himself. Despite his short tenure as a senator, Obama prided himself on his grass-roots knowledge of foreign affairs, having grown up partly in Indonesia with a foreign stepfather, and he had developed his own definite worldview. As the aide put it, "If you ask, 'Who is Barack Obama's Henry Kissinger?' the answer, of course, is that it's Barack Obama."

When Clinton did appear to get out ahead of the White House, she was quickly reined in. In 2009, Clinton hinted that she was developing a policy to unite the Arab autocracies in an anti-Tehran bloc, and she gave a speech calling for Arab regimes to join a Cold War–style "defense umbrella" to protect against Iran's nuclear program. *The New York Times* soon quoted a "senior White House official" as saying that

Clinton was speaking for herself. That was the last mention of a defense umbrella. Later, she tentatively supported a CIA plan to arm the Syrian rebels, but Obama shot down that idea as well.

Clinton also suffered from the same problem that former Secretary of State Colin Powell confronted in George W. Bush's first term: the presence of an influential vice president who constituted a separate power center on foreign policy. In Powell's case, that was Dick Cheney; for Clinton, it was Joseph Biden, the deeply experienced former chair of the Senate Foreign Relations Committee.

In 2009, for example, top administration officials were split over how to handle the quagmire in Afghanistan. Biden counseled the president to scale down the U.S. presence there and rely on a policy of counterterrorism, carried out by special operations units and drone strikes. Although Clinton and Gates' call for a troop surge won the day, by 2012, Obama began siding with Biden and started accelerating the U.S. withdrawal. The Iraq withdrawal plan, too, was handed over to Biden and his team. A senior administration official described what happened at an early meeting in 2009: "All of sudden, Obama stopped. He said, 'Joe will do Iraq. Joe knows more about Iraq than anyone.'"

Despite the lack of a singular triumph to her name, however, there is a case to be made that the impact Clinton had on U.S. foreign policy will be felt long after she has left office. In an interview midway through her tenure, I asked Clinton how she assessed her effectiveness and why she hadn't "taken a big issue and totally owned it." She responded that she had "inherited such a range of problems and deficits across the world that it would be a luxury to say, 'I'm going to focus on this and this alone.'" Like Obama, Clinton set out to repair the damage that Bush had done to the country's stature around the world, and in that, she had some noteworthy success. As she put it, "We've worked very hard to restore relations with allies, and I think we've made a lot of progress in doing so . . . and frankly taking situations that had badly deteriorated, especially Russia and China, and turning them around to be able to put them on a much more positive footing." Asked what she most enjoyed about the job, she replied, "A lot of it is not the headline stuff. It's the slow and steady progress that I think provides a much firmer footing for us."

Slow and steady progress is not necessarily the stuff of greatness. But it is valuable nonetheless, and it may be what, in the end, the world will remember most about Clinton's tenure as the country's top diplomat.

America's Energy Opportunity

How to Harness the New Sources of U.S. Power

Michael Levi

An energy revolution is unfolding in the United States—but unlike most past or promised revolutions, this one is not confined to a single fuel or technology. After falling for more than two straight decades after 1985, U.S. crude oil production has now risen for four consecutive years, and in 2012, it posted its largest one-year increase since the dawn of the oil industry more than 150 years ago. Meanwhile, in 2011, natural gas surpassed coal as the United States' biggest source of domestically produced energy, thanks to surging output and plunging prices. And all this growth in U.S. fossil fuel production has not prevented the rise of zero-carbon energy sources: the amount of electricity generated from cutting-edge renewables—wind, solar, and geothermal—has doubled since 2008, and prices have plummeted. Moreover, as technological innovations have made U.S. motor vehicles more fuel efficient, the country's oil consumption has fallen by nearly ten percent since 2005, reversing what previously seemed to be an interminable upward trend.

The U.S. energy landscape has not undergone such drastic changes since the 1960s and 1970s, which witnessed the emergence of nuclear power, peak U.S. oil production, two oil crises in the Middle East, and the birth of the environmental movement. Not surprisingly, the present transformation is prompting big predictions about the future. Oil and gas enthusiasts are projecting such massive growth in production

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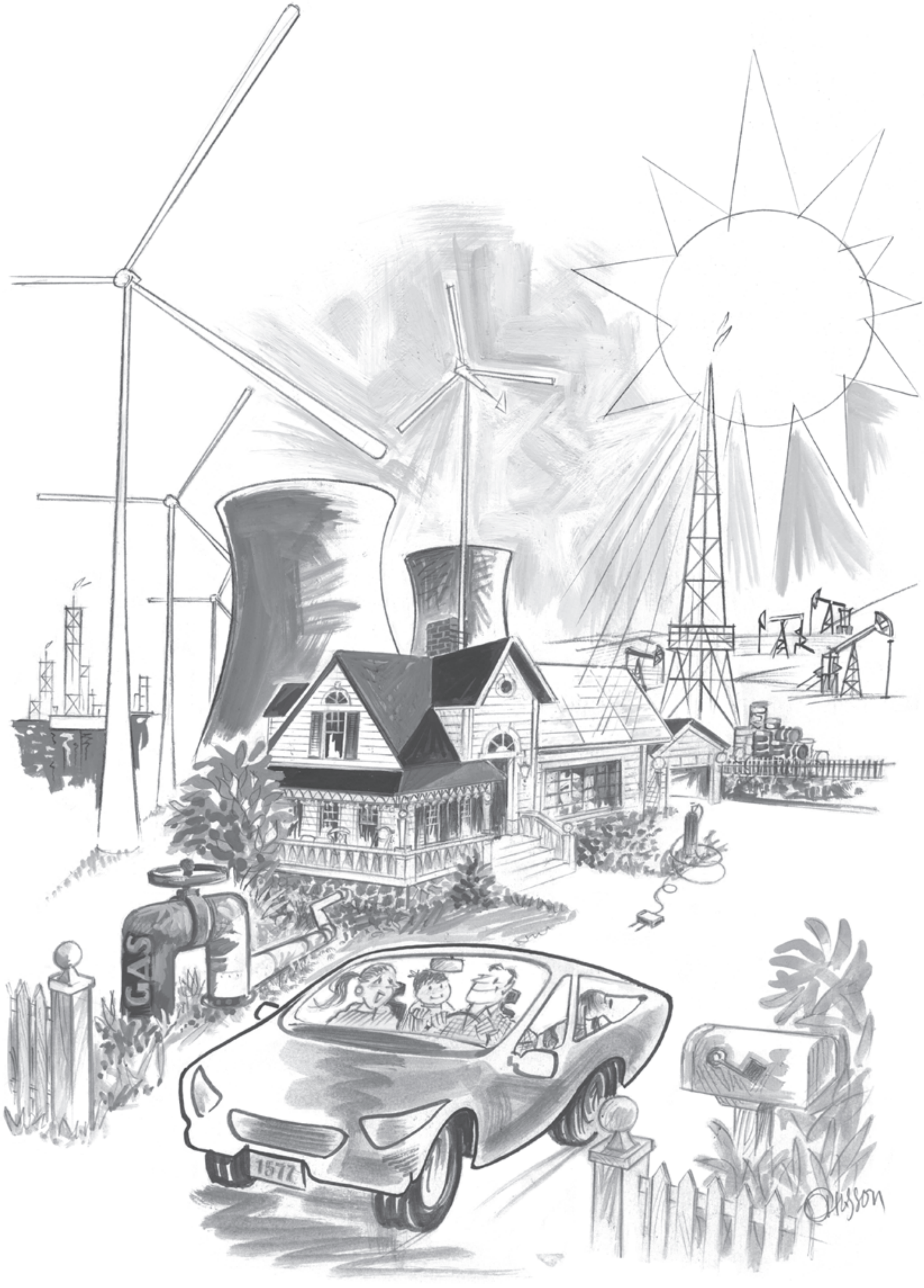

that the United States might soon grasp the Holy Grail, energy independence; natural gas, meanwhile, is being hailed as a one-stop solution to climate change and a replacement for petroleum. Advocates of renewable energy are just as jubilant, predicting that their technologies will soon be cheaper than fossil fuels, and supporters of advanced automobile technologies are heralding an impending move beyond oil. Virtually every energy booster is also insisting that his or her fuel or technology of choice will turbocharge the U.S. economy.

There is something to all these claims. Yet what they often miss—and what too few players in the usually zero-sum world of energy politics embrace—is that the best future lies in capitalizing on all the new developments. The energy revolution is splitting Americans into two rival camps: one that is enthusiastic about the resurgence of oil and gas and another that favors renewable sources and more fuel-efficient cars and trucks. The first camp typically rejects government support for renewables and advanced automobile technologies, warning that it wastes taxpayer money and threatens the country's economic health. The second camp often opposes efforts to enhance U.S. oil and gas production, arguing that these fuels pose grave risks to the environment and could kill progress on clean energy.

The energy revolution is splitting Americans into two rival camps.

Both camps raise important concerns, but each regularly overstates its case—especially when it claims that the other's gains are intolerable. The truth is that the best way to strengthen the American economy, bolster national security, and protect the environment is for the country to take advantage of all the new energy opportunities. No single fuel or technology can solve the country's problems: increased oil production will not free the United States from involvement in global petroleum markets, natural gas alone will not solve climate change, renewables remain expensive, and vehicles that do not rely on oil are far from being broadly economically competitive. The central challenge, therefore, is figuring out how to capitalize on all the new opportunities, which will require enthusiasts of different energy sources to start cooperating, or at least to stop fighting so bitterly. Leaders around the country, and particularly in Washington, need to adopt a most-of-the-above approach: carefully increasing opportunities for energy production of all kinds, while penalizing dangerous energy consumption that would worsen climate change and sustain U.S. dependence on oil.

HYDROCARBONS GALORE

There are three primary objections one hears to a most-of-the-above approach. First, critics argue that some of the new energy opportunities could prove to be mirages. Energy forecasters have certainly been burned before: oil prices skyrocketed in the first decade of this century, for instance, after projections in the 1990s that they would stay low forever. Second, one of the fuel sources or technologies now being promoted could end up rendering the others superfluous. If natural gas alone could solve climate change, for example, supporting renewables might be a waste of time and money. Finally, some of the energy options could fundamentally conflict with one another or with other important national goals. If it is impossible to boost U.S. oil output while also cutting U.S. oil consumption, for instance, then it makes sense to pick sides.

But these objections do not stand up to scrutiny. At present, oil and gas production, renewable energy, and fuel-efficient automobile technologies all show great promise. None of them alone offers a panacea. And the continued pursuit of all of them will not fatally undermine any central U.S. objective. Consider recent increases in oil and gas production, which benefit the U.S. economy and national security but cannot solve all energy-related problems in those areas. One study by the energy consulting firm IHS CERA claims that shale gas alone supported 600,000 American jobs in 2010, and another by a team at Citigroup projects several hundred billion dollars in added economic output if domestic oil and gas production soar. Meanwhile, growing natural gas production has freed the United States from dependence on importing the fuel by tanker, sparing the country from entanglements in politically charged global gas markets. (Gas also promises to replace some oil that is currently used in cars and trucks.) Rising U.S. oil production, moreover, will moderate world petroleum prices and help mitigate the impact of turmoil in global oil markets on the U.S. economy.

The revolution in U.S. oil and gas production, however, is neither an economic nor a foreign policy cure-all. The economic gains that even bullish analysts project fall far short of what the U.S. economy needs to get back on track. And even if domestic production and the replacement of oil with natural gas allowed the United States to eliminate all petroleum imports (a massive stretch), the country would still not be energy independent in a meaningful sense. Because the price of oil is largely set on world markets, disruptions in the Middle East and other major oil-producing regions would continue to trigger price spikes for Americans at the pump. The only way out of this problem would be to try to block oil exports from North America in times of crisis. But such a strategy, if it worked, would inflict severe pain on allies by taking additional oil off world markets and could easily result in blowback if those who were hurt by Washington's moves retaliated economically.

Just as increases in oil output will assist, but not ensure, strong U.S. economic growth and freedom of action in foreign policy, gains in natural gas production will ease, but not solve, the climate change problem. Abundant natural gas supplies present a major opportunity to cut U.S. greenhouse gas emissions. Burning natural gas to generate electricity produces roughly half as much carbon dioxide as burning coal does. As recently as 2010, coal-fired electricity accounted for a third of U.S. carbon dioxide emissions, and mainstream projections at the time anticipated that this fraction would increase slightly in the immediate future. But in the years since, coal use has dropped sharply, and even more significant, cheap natural gas has scuttled plans to build new coal-fired power plants, which are no longer economically competitive. Once built, coal plants often remain operational for over half a century, so preventing new construction today will help reduce carbon dioxide emissions well into the future.

Nevertheless, cheap natural gas alone cannot solve the United States' climate problems. Absent government assistance, natural gas production will not decrease coal usage much more than it already has. Furthermore, for global temperatures to stabilize, total greenhouse gas emissions will eventually have to fall to nearly zero. Natural gas by itself cannot accomplish this task. To meet U.S. demand for electricity while essentially eliminating emissions, either nuclear power, renewables, or technologies that capture and store emissions from gas- and coal-fired power plants will have to fill the gap.

GREEN AND CLEAN

New developments in renewable energy and automobile technologies are almost as astonishing as those in fossil fuels. Costs have been falling thanks to technological innovation and government support, making wind, solar, and other technologies ever more attractive tools for reducing carbon emissions. Between 2008 and 2012, for example,

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the cost of a solar module fell by 80 percent. Yet given current prices, shifting from coal to natural gas is usually still a cheaper way to cut emissions than moving all the way to renewables. Looking into the future, moreover, it is unclear whether renewable energy, nuclear power, or technologies that sequester carbon dioxide will be most useful in bringing down U.S. greenhouse gas emissions. So long as this uncertainty remains, and renewables stay relatively expensive, the United States will be better off switching from coal to natural gas while moving forward on a wide range of zero-carbon energy fronts.

Meanwhile, in recent years, the combination of high oil prices, technological innovation, and new government regulations has spurred the development and use of increasingly fuel-efficient cars and trucks. This trend is poised to continue over the next decade. New fuel-efficient vehicles are reducing American demand for oil and, in turn, tempering global oil prices. Lower oil use in the United States is helping shield the country from the economic consequences of volatile world petroleum markets—although declining oil use will not come close to eliminating the United States' vulnerability to oil price shocks anytime soon. Still, cars that use no oil-based fuels are far from being broadly competitive with traditional vehicles, and since the typical car stays on the road for about 15 years, change will be slow to penetrate.

Lower oil use in the United States is helping shield the country from the economic consequences of volatile world markets.

Some critics argue that further increases in U.S. oil and gas production could be catastrophic for both the development of clean energy and efforts to curb American oil consumption. These concerns are understandable but ultimately overwrought. There is a simple way to square rising U.S. oil output with lower oil use: fewer imports. To be sure, greater U.S. petroleum production will reduce world oil prices, which will encourage slightly more U.S. oil consumption. But American petroleum use tends to go up only modestly when prices fall, so the net result will still be that the United States spends less money on oil. Moreover, since U.S. regulation is a central driver of the shift to more fuel-efficient cars and trucks, lower oil prices will have a smaller impact on petroleum consumption than one might assume—so long as regulations are kept in place and extended over time.

Lower oil prices will prompt other countries to boost their oil consumption—a development that, no matter how small, spells bad news for the climate. But gains in U.S. oil production are likely to encourage other states, such as Saudi Arabia and the United Arab Emirates, to curb their own output in an effort to avoid lowering prices significantly. As a result, increased U.S. petroleum production will likely have only a marginal effect on total world oil supplies and consumption, muting the impact of the U.S. oil boom on global emissions. Even a boost in U.S. oil production that eliminated all imports—a highly improbable outcome—would probably add just one or two percentage points, at most, to global emissions.

Natural gas presents a different challenge. Currently, natural gas is replacing far more coal than it is renewables and other zero-carbon energy sources. That makes its net impact for climate change an immediate positive, even if it is pushing aside some zero-carbon fuel. Bigger problems, however, may loom in the future, since emissions will ultimately need to drop down close to zero, which is unlikely to happen if zero-carbon energy prices do not fall substantially.

The real near-term risk from natural gas, then, is that it could undercut innovation and prevent prices from falling in the clean energy sector. Even if gas displaces relatively little renewable energy compared to the size of the U.S. energy system, the impact could be substantial relative to the size of renewable energy markets. The natural gas boom, therefore, has increased the importance of the U.S. government's efforts to ensure that zero-carbon innovation persists.

WHERE WASHINGTON COMES IN

Fortunately, the United States does not need to make a stark choice; it can take advantage of all the major changes under way in the energy world by pursuing a two-pronged strategy. First, Washington should expand and sustain opportunities for energy production across the board by reforming regulations and making investments in innovation. Second, in order to blunt broad economic, security, and climate risks, it should pursue an ambitious policy, focused on how the United States uses energy, that reduces U.S. carbon emissions and oil consumption.

The first prong of the strategy would involve new efforts in three areas: environmental regulation, infrastructure development, and energy innovation. Striking the right balance when it comes to environmental protection and permitting processes is difficult. On the one hand, excessively onerous regulation can render energy development unprofitable and, in turn, undermine the benefits of the policy. It would be particularly unwise to severely curtail certain activities, such as shale gas development and offshore drilling, when effective regulation is a viable alternative. On the other hand, exerting too little effort to protect the environment would not just be dangerous and unfair; it would put development at risk of being thwarted by political opposition. A good model of balance is the International Energy Agency's list of 22 "golden rules" for shale gas development, which go a long way toward protecting the environment and add only an estimated seven percent to the cost of a typical shale gas well.

To encourage development, pipelines are needed to connect oil and gas extraction sites, refineries, power plants, and homes.

Too many energy developers seem to believe that stricter regulation is unnecessary so long as they adhere to sound practices themselves. But affected citizens tend not to discriminate between companies. The 2010 Deepwater Horizon oil spill, for example, hurt offshore drilling prospects not only for BP—the primary culprit—but also for every other developer. More recently, bad behavior by a handful of shale gas developers in Pennsylvania has prompted concerns from landowners in neighboring New York, threatening shale gas firms uninvolved in the misconduct next door.

It is not just oil and gas producers, moreover, who spark environmental opposition. Many champions of renewable energy believe that their preferred fuels should be immune from environmental concern—no wind turbine or solar plant, they point out, has ever sullied a beach with toxic goo or poisoned an aquifer. But producing renewable energy often uses a lot of land and, consequently, provokes intense resistance. Other zero-carbon sources face similar challenges: nuclear power must deal with plant safety and waste disposal, and carbon sequestration requires locals to accept underground repositories. Policies that safely expand opportunities for development are essential for all sources on both sides.

The second critical area that Washington should promote is long-distance energy transport infrastructure. Oil and gas are developed only in places where the geology is favorable, and these locations are frequently far from refineries, power plants, and homes. To encourage development, pipelines are needed to connect the waypoints—and policymakers should resist placing unnecessary barriers in their way. Meanwhile, the sunny expanses and windy tracts that are necessary for renewable power generation are also often remote from the metropolises where energy is in greatest demand. To make renewable sources more viable, Washington should create a better investment climate for private developers who can build power lines that span these long distances.

These projects will not be easy: building pipelines and power lines can be extremely complicated politically. Each one typically crosses hundreds or thousands of individual properties, meaning that huge numbers of owners must be won over and compensated for any given project. (In some cases, developers can invoke eminent domain, but that risks sparking popular anger and political opposition.) Part of the problem is that politicians often focus more on local objections to long-distance infrastructure than on the national benefits of it. But Washington can help by taking steps such as requiring state regulators to consider costs and benefits that extend beyond their borders and possibly eliminating the need for each affected state to sign off on power-line projects. (Pipelines are already handled at the federal level.) Such reforms would go a long way toward helping the United States get the energy transport infrastructure it needs.

Government investment in energy innovation is invariably risky, but staying out of the game entirely is even riskier.

The third essential element for boosting energy production opportunities is government support for innovation. Most economists agree that the private sector naturally underinvests in innovation. Breakthroughs made by one person or company are often copied by others, so individual inventors and businesses are frequently unable to capture the full benefits of their investments. As a result, they do not invest as much in innovation as the country needs. The upshot for the energy sector is that there are not enough technologies for the cheap production of renewable energy, the secure generation of nuclear power, the efficient extraction of gas, the safe development of oil, or the effective capture of carbon emissions from power plants.

But observers who agree that the private sector falls short in these areas often disagree about whether and how the government can help.

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The furor that followed the collapse of Solyndra, the California-based solar company that went bankrupt after receiving generous government support, is a case in point. Some argue that failed investments are a price worth paying for government efforts to spur innovation; others insist that Washington's tinkering, however well intended, is itself the source of failure.

The truth is that government investment in energy innovation is invariably risky, but staying out of the game entirely is even riskier, because it could severely constrain U.S. energy options down the road. Policymakers can navigate this situation by focusing as much as possible on the earliest stages in the innovation process—namely, research and development—since single bets there will be small and budget allocations can be spread widely. Meanwhile, Washington could support more expensive efforts, such as the commercialization of emerging technologies, by occasionally taking equity stakes in innovative projects and by deploying broad programs with clear and simple rules, such as making cash grants available to all zero-carbon energy systems meeting certain criteria.

A LOW-OIL DIET

Washington must do more, however, than just expand opportunities for energy production. Absent additional initiatives, zero-carbon sources and oil alternatives will struggle to compete in a market dominated by cheaper fossil fuels. Even natural gas will have a hard time displacing still-inexpensive coal. Inaction would represent a failure by the United States to become more economically resilient in the face of volatile world oil markets. It would also leave the country with dangerously high greenhouse gas emissions—unable to be a serious part of, let alone lead, international efforts to combat climate change.

Washington can confront these challenges by helping change the way Americans use energy. The demand side, not the supply side, is where steps that limit U.S. energy activities will be most effective at achieving their intended national goals. Advocates of cutting greenhouse gas emissions have a habit of getting bogged down in debates over technical choices. Some favor cap and trade—a scheme that would make polluters buy scarce permits to cover their carbon dioxide emissions, thus creating incentives to switch to cleaner fuels—while others prefer a carbon tax, which would charge polluters directly for their emissions. Recently, some advocates have focused on a so-called clean energy standard, which would mandate that electricity producers generate an increasingly large fraction of power from low-carbon sources, including natural gas. And more and more attention is given to Environmental Protection Agency (EPA) mandates that tell power producers and industrialists to cut their emissions. All these approaches have the potential to cut emissions at lower cost than was previously possible because of gains in natural gas and renewables.

The fixation on debating technical policy options, however, is misguided. Instead, the objective should be achieving a combination of ambition and flexibility—ambition because even the most carefully crafted policy is worth little if it does not have the potential to cut U.S. emissions substantially, and flexibility because cuts that do not allow companies and individuals the freedom to decide how to achieve them are a recipe for expensive error. Mandating that all U.S. power eventually be derived from renewable sources, for example, could turn out to be disastrous if their costs do not continue to fall steeply. Forcing power plants to switch to less carbon-intensive sources instead of allowing consumers to adopt new energy-saving technologies in a cost-effective manner could be similarly unwise.

Ideally, the U.S. Congress should put in place some sort of market-based system—whether cap and trade, a carbon tax, or a clean energy standard—and focus on getting that system's ambition and flexibility right rather than haggling over the different options. At least in the short term, however, that is unlikely to happen, so the Obama administration will be left with narrow regulation of major carbon sources as its only viable option. Exercising its existing authority, the EPA should concentrate on maximizing flexibility and calibrating the ambition of its regulations to match. If the Obama administration chooses this route, the least Congress can do is let the EPA's authority stand. In the long term, though, enacting one of the more flexible market-based approaches will be necessary.

Washington should also endeavor to make the country's motor vehicles more fuel efficient. In this area, the Obama administration is already off to a strong start. Last year, it finalized aggressive fuel-economy regulations for the years 2017 through 2025, supplementing those it had already put in place for vehicles sold through 2016. These rules will require automakers to boost the efficiency of their average car or truck from around 30 miles per gallon in 2012 to nearly 55 miles per gallon by 2025. (The Toyota Prius is currently rated at 50 miles per gallon.) The actual fuel economy that these standards will achieve will be slightly lower than the targets, since automakers can take a variety of alternative steps, such as selling electric vehicles, that give them bonus credit toward the mandates. But the Obama administration has set its sights high.

There are two more simple but controversial policies that Washington should explore. First, lawmakers seeking ways to cut the U.S. budget deficit should consider raising gasoline taxes as part of a broader package of spending cuts and revenue increases. Implemented properly, this sort of move would result in less oil use, greater economic growth, and lower unemployment than a package without it would deliver. Congress and regulators should also consider requiring that new automobiles be capable of accepting biofuels and methanol (a fuel that can be synthesized from natural gas and plant material) in addition to gasoline or diesel. That would reduce the risks for developers of alternative fuels and give consumers more options in the face of volatility in oil markets.

POWER UP

Some people will enthusiastically embrace every element of this agenda. But many others will take issue with one part or another. There will be concerns about the ultimate ends—particularly among people who think that climate change is unimportant or that Washington does not need to protect Americans from turmoil in world oil markets. More frequently, the two major camps will disagree about means, with one side intensely opposing new regulations on industry and additional government spending and the other just as forcefully rejecting any expansion of fossil fuel production. It would best serve both sides, however, to accept a broad approach rather than digging in and fighting narrowly for their ideal outcomes.

Coming around to that conclusion will require both sides to accept two facts. The first is that each has considerably more power to hinder its opponent's agenda than to promote its own. Historically, opponents of fossil fuels have been successful in preventing large expansions of the federal land available to oil and gas development. More recently, opponents of fracking have waged campaigns that have put expanded use of that technology at risk. The opponents of renewables and fuel-efficient automobiles have been even more successful: they have thwarted serious climate legislation and mounted effective resistance to new government investment in energy innovation. Consequently, the alternative to a path that embraces a diverse set of developments is likely to be not victory for the fossil fuel enthusiasts or for the renewables and fuel-efficiency advocates but rather unending disputes that damage core interests on both sides.

The second fact is that compromise need not be fatal for anyone. People who are worried about climate change are right that unfettered fossil fuel consumption is unacceptable. But that does not mean that accepting some fossil fuel development would destroy their cause—in fact, in the case of natural gas, it would help. Meanwhile, those who are worried about state intervention in the economy are right to criticize inflexible and indiscriminate government regulations. But not all schemes to curb emissions or to protect communities from the downsides of energy development fit that bill. A most-of-the-above agenda would eliminate the genuine deal killers for each side, leaving a package that could deliver the essentials of what both want, take advantage of gains across the board, and avoid the risk of an extended battle that would devastate everyone and satisfy no one.

It would be foolish to expect either side in this decades-old fight to lead the charge for a most-of-the-above approach. It would also be unreasonable to ask the two sides to stop skirmishing over individual decisions, such as opening new areas to oil and gas development or establishing a carbon-pricing scheme. The burden of advancing this agenda ultimately rests with U.S. leaders. President Barack Obama has advocated an energy policy that, as his first term evolved, became increasingly consistent with this sort of approach, but there is much more work to be done. Using legislation and executive action, Obama and a core group of lawmakers should push forward with a most-of-the-above energy strategy. The result would be a stronger economy, a more secure country, and a safer planet.

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20/20 Vision on Growth

By Dato' Sri Mustapa bin Mohamed, Minister of International Trade and Industry

Since it gained independence in 1957, Malaysia has undergone a remarkable transformation from an agricultural economy to a dynamic manufacturing and services–driven economy, a feat that has consolidated its reputation as one of Southeast Asia's economic powerhouses.

With more than 28 million people, Malaysia's success is a result of hard work, wisdom, and the resilience of our leadership and our multiethnic, multireligious people.

It is my firm belief that Malaysia is and will remain a beacon of what a nation can achieve by adopting the principles of moderation and cooperation. It is a testament to the truth that diversity — whether cultural, linguistic, or religious — is a strength that advances a nation.

Dato' Sri Mustapa bin Mohamed, Minister of International Trade and Industry

At the same time, Malaysia has never rested on its laurels. Our government is conscious of the fact that while countries grow more prosperous, with the advent of globalization, societies also become more complex.

Malaysia's government — led by Prime Minister Datuk Seri Najib Tun Razak — has therefore sought to embark on a path of national transformation to improve the quality of life for all Malaysians through sustainable growth.

Shortly after taking office in 2010, the Najib administration launched two comprehensive schemes: the Economic Transformation Program (ETP) and the Government Transformation Program (GTP).

The ETP seeks to turn Malaysia into a high-income nation by 2020 and raise gross national income per capita from $6,700 in 2009 to more than $15,000 by 2020.

Powered by specific sectors, such as tourism and oil and gas, GNI growth of 6 percent per year will allow us to reach the targets set in Vision 2020 of our former prime minister, Tun Dr. Mahathir Mohamed.

On the other hand, the GTP is an ambitious, broad-based program to transform government into an efficient and people-centred institution.

The goals of the GTP are encapsulated in seven National Key Results Areas (NKRAs): reducing crime, fighting corruption, improving student performance, raising living standards of low-income households, improving rural development, improving urban public transport, and addressing the cost of living.

The GTP also includes Ministerial Key Results Areas (MKRA), which address developmental goals that are not covered by the NKRAs. So far, the government's efforts have already shown clear results.

As Prime Minister Najib reported recently, Malaysia's GNI now stands at $9,970, a 48.8 percent jump from 2009.

There has also been an overall reduction in the crime index from 26.8 percent to 40.9 percent since the introduction of the GTP.

Also, 99.9 percent of Malaysia's poorest households have left this category through skills training programs and the development of some 43,000 women entrepreneurs. Malaysia has also opened 2,054 new preschools across the nation and built roads in 98.6 percent of peninsular Malaysia, as well as in 88.7 percent of Sabah and 82.7 percent of Sarawak.

Meanwhile, 99.8 percent of peninsular Malaysia enjoys 24-hour electricity, while coverage has reached 88.7 percent of Sabah and 82.7 percent of Sarawak.

In trade, Malaysia generated about $51.9 billion in investments in 2012, exceeding official targets by 9 percent. Of that, around $40.5 billion (78 percent) came from domestic investments and $11.4 billion (22 percent) came from foreign investments.

From 2011 to 2012, around 50 million tourists spent about $32 billion in the country. And after growing 5.6 percent last year, the economy is projected to expand between 4.5 and 5.5 percent for 2013.

These figures are very encouraging, especially after considering the gloomy outlook of the global economy.

It is a sign not only of continued investor confidence in Malaysia's fundamental strengths, but also that the government's transformation program has been bearing fruit.

OVERVIEW / ECONOMY & INDUSTRY

Consolidating its strength among Southeast Asian neighbors

As several countries around the world struggle to jumpstart their economies, Malaysia has impressively shown much resilience and stability the past several years.

Led by Prime Minister Najib Tun Razak, the government unveiled in 2010 its National Transformation Programme, which aims to raise per capita income to about $15,000 and transform the once-agricultural economy into a high-income, knowledge-based one, just like the most mature economies found in Europe and North America.

Just three-years-old, the NTP — made up of the Government Transformation Programme (GTP) and the Economic Transformation Programme (ETP) — has already yielded impressive results. *(See the Minister of Trade and Industry's message on the previous page)*

Likewise, the ETP comprises 152 Entry Point Projects, or EPPs, divided among twelve National Key Economic Areas, or NKEAs.

Overseeing this comprehensive effort is the Performance Management & Delivery Unit (PEMANDU).

"Three key words for us at the moment are: focus, competitiveness, and execution. We are focused on sectors where we can compete robustly and make ourselves more competitive by undertaking fundamental policy reforms that will allow businesses to flourish. Finally, the discipline of execution is what enables this planning to come to fruition," said Ku Kok Peng, PEMANDU's director of investments for palm oil and rubber National Key Economic Area (NKEA).

"The National Key Economic Areas are the engines of growth, while EPPs are the spark plugs that will fire up these engines to a new level of performance," added Ku.

Contributing about one-fifth of the national GDP over the past decade, the oil, gas, and energy sector is among the twelve NKEAs selected by the government.

"With the rapidly changing energy landscape, we must continue to address the impact of rising fuel costs on subsidies and energy efficiency to ensure the sustainability of Malaysia's economy. Economic competitiveness requires efficient energy production and consumption," said Dato' Sri Peter Chin Fah Kui, minister of energy, green technologies and water, as cited in PEMANDU's Annual Report in 2012.

The private sector has responded enthusiastically as it continues to work closely with the government to maintain Malaysia's competitive advantage over its Southeast Asian neighbors by providing reliable energy at a competitive cost.

"The government has strong confidence in us. We enabled the country to transform itself into what it is today and to what it is targeting to be. We played a major role in the country's industrialization. As the government tries to lure more investment from abroad, one of the things international investors are looking for is stable, reliable, and affordable energy supply," said Datuk Seri Ir. Azman Mohd, president and CEO of Tenaga Nasional Berhad.

"Our energy costs are much lower compared to other nations of the region. We are helping the country with a competitive advantage to bring in foreign investment" he added.

At the moment, there are thirteen EPPs tasked to deliver the targets set by the ETP. These projects include plans to turn Malaysia into an oil and gas hub, and tax incentives to spur exploration investment in marginal oil and gas fields, with an emphasis on the development of renewable energy.

In the field of hydroelectricity, the Malaysian state of Sarawak, on the island of Borneo, has emerged as a key source, namely through the Sarawak Corridor for Renewable Energy (SCORE), which boasts an abundance of natural resources and offers commercial users clean energy at competitive rates.

"We are going from 8 percent hydroelectric power use in 2010 and will stabilize to about 70 percent by the end of the century. In the meantime, we will develop state-of-the-art gas- and coal-fired power plants to take advantage of the indigenous resources in Sarawak," said Torstein Dale Sjøtveit, CEO of Sarawak Energy Berhad.

Complementing the push towards becoming a knowledge-based economy, the government has shown strident support to the country's schools and universities, which have begun online distance learning in fields such as Islamic finance specialization.

While top-tier foreign universities have set up campuses in Malaysia, established institutions of higher learning are making their unique mark in the education sector.

Celebrating its thirtieth anniversary this year, the International Islamic University Malaysia (IIUM) has raised its profile in the international community by emphasizing its inclusive and individual nature.

"The International Islamic University in Malaysia is true to its name. We are located in Malaysia, but have on the board of governors and council representatives from other countries as well. The president of the Organization of Islamic Cooperation, for example, is a member of the board of governors. We also have representatives from other countries, like Egypt, Pakistan, Bangladesh, Saudi Arabia, among others," said IIUM president Tan Sri Sidek Hassan.

"We truly want to live by Islamic principles. What is interesting is that, perhaps contrary to popular expectations, we are not all about Islam. We have twelve colleges outside of the college of social sciences, and these colleges are as worldly as any faculty in the United States. What differentiates us from other universities is that we add the Islamic dimension. The Islamic dimension is about religion, the teaching of religion. It's about integrity and doing what is right," he continued.

For centuries, Malaysia has been known for its rubber industry, which currently supplies 60 percent of global demand.

"Malaysia enjoys several distinctions in the rubber industry. It is the number-one supplier of natural rubber and nitrile gloves, Foley catheters, and latex condoms to the world. Malaysian exports of latex products accounted for about 80 percent of the total export value of rubber products, which was largely contributed by gloves. Currently, Malaysia is home to the world's leading producers of rubber gloves," said Dato' Suat Cheng, CEO of the Malaysian Rubber Export Promotion Council.

The government has set a specific performance target for the rubber industry: to increase its contribution to GNI from $5.84 billion currently to $16.70 billion by 2020, a clear and robust vote of confidence in the its capability to dominate the global market for rubber products.

Meanwhile, information and communications technology (ICT) has kept its preferential status ever since the government established the Multimedia Development Corporation (MDeC) in 1996 to advise the government on policy and legislation and oversee the development of the Malaysian Multimedia Super Corridor, known presently as MSC Malaysia.

MSC Malaysia aims to create an ideal platform to help Malaysian small and medium enterprises (SMEs) in the ICT sector become world-class businesses while attracting investment from foreign ICT companies and encouraging them to develop cutting-edge digital and creative solutions.

"Since the inception of MSC Malaysia, the ICT sector has become one of the important industries in Malaysia. In 2010, MSC Malaysia's contribution to the country's gross domestic product (GDP) stood at $2.41 billion. With the growth of the country's ICT industry, the contribution to nation's GDP increased to $3.03 billion in 2011," said Datuk Badlisham Ghazali, CEO of MDeC.

"MDeC is also looking to position Malaysia as an SSO (single sign-on) destination of choice for vertical sectors such as information and communication technology; banking, financial services, and insurance; energy, chemical and resources; logistics and transportation; and pharmaceutical and health care," he also said.

As the NKEAs continue to grow, support industries have also thrived. As Malaysia sees an increase in foreign direct investment, domestic law firms with an expertise in intellectual property have gained more business from multinational companies seeking local business knowledge.

"We provide solutions to clients. We provide value-added services. I must say, there has been a yearly increase in the business that we generate. Seventy percent of our business comes from foreign clients," said Wong Jin Nee, founding partner of Wong Jin Nee & Teo Advocates & Associates.

"Malaysia is a place worth investing in. I think Malaysia has a very conducive environment for investment. We are in a good position to provide a strategic partnership to those prospective clients. We are committed to exploring long-term partnerships," Wong explained.

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Century Software: Driving business solutions

A member of the fast-growing censof Group of Companies, censof was set up in 1997 by a former government accountant who saw an opportunity to improve accountancy via innovative technology.

"My partners and I decided to develop a financial management system that specifically catered to the government as a way to create a niche market. We are now only starting to look at other markets. We know that we are capable of competing with anyone globally," explained group managing director Datuk Samsul Husin.

censof Group Managing Director Datuk Samsul Husin

Through the years, censof has had success with several landmark projects of the Malaysian government.

Currently, censof is working with the ministry of finance on the Outcome–Based Budgeting (OBB) project, which involves twenty–seven government ministries.

The OBB project streamlines planning and performance monitoring, and comes with a result framework and a budget portal.

censof is also participating in the development of the Malaysian Social Security System's core system.

"We are part of the e-RAS (Electronic Revenue Accounting System) project with the Inland Revenue Board of Malaysia. We are very proud of this project. The Web-based payment system reduced total processing time for payments from more than a month to just a few days," said Samsul.

Following a successful IPO in 2011, censof is looking for opportunities to expand overseas. It now has offices in Atlanta, Sydney, and Jakarta.

censof has shown huge interest in developing its business in the United States, where it worked on analytic reporting for organizations such as the *New York Times*.

"In terms of our products, we have our own, which are technically on par with any other product in the world. Our solutions provide value for money compared to other products in the market. We own these products, which gives us the flexibility required to specifically help our clients in reducing their costs and improving their efficiency," he said.

PENANG: Hub of SEA cruise destinations

Fondly called the Pearl of the Orient, the island of Penang is located on the northwest coast of peninsular Malaysia by the Strait of Malacca, the main shipping channel that has linked Europe and Asia since the spice trade centuries ago.

That history gave Penang a unique heritage and culture that fused East and West. The capital, George Town, boasts a large number of well-preserved colonial-era buildings, for which it was given World Heritage status by UNESCO.

Penang is connected to an integrated network of cruise destinations via Swettenham Pier Cruise Terminal (SPCT), which is the only entry point for tourists arriving on the island by cruise ship.

The 400-meter long, T-shaped terminal and two 80-meter inner berths can accommodate some of the world's largest vessels.

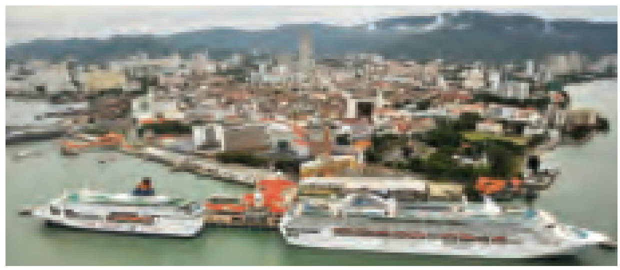
Ships and cruise lines that have docked in SPCT include Star Cruises, Royal Caribbean International, Aidacara, Seabourn, P&O, Princess, Silversea, Costa Crociere, Cunard, *RMS Queen Mary*, and *Queen Elizabeth 2*.

Located within George Town, SPCT is a port city that provides passengers with easily available ways to explore Penang: bicycles, trishaws, taxis, and executive coaches.

Visitors can also explore the city on foot, as many sites are found nearby.

In charge of managing SPCT, the Penang Port Commission has plans to further expand the facilities and promote the island in key markets such as Miami, Barcelona, Istanbul, Singapore, and Hong Kong.

The Penang Port Commission is also seeking partners in Asia, Europe, and United States to develop the island as the best cruise hub in Malaysia and a top cruise destination.



The Swettenham Pier Cruise Terminal in Penang

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POWER HOUSES / TENAGA NASIONAL BERHAD

Powering the growth of Malaysia and beyond

Tenaga Nasional Berhad President and Chief Executive Officer Datuk Seri Ir. Azman Mohd

"We are the keeper of the light for everybody in peninsular Malaysia, whether it's commercial or domestic consumers, be they in rural or urban areas."

"In our electricity bill, 1 percent of it actually contributes to a fund that subsidizes the premiums for the green developers. We also have a subsidiary that deals exclusively in renewable energy."

– Tenaga Nasional Berhad President and CEO Datuk Seri Ir. Azman Mohd

"We are the keeper of the light for everybody in peninsular Malaysia, whether it's commercial or domestic consumers, be they in rural or urban areas," emphasized Datuk Seri Ir. Azman Mohd, president and CEO of Tenaga Nasional Berhad (TNB), the largest electricity company in Malaysia and a leading utility entity in Asia.

Since its inception, TNB has enabled Malaysia to transform itself into the economic powerhouse that it is today.

Tracing its origins to the establishment of the government-run Central Electricity Board in 1949, TNB was later privatized and publicly listed in 1990.

Since then, the company has expanded operations and accumulated assets currently estimated at $29 billion dollars.

As much as it has provided a stable return to its investors, TNB has stayed focused on supplying Malaysians with a reliable source of energy. In fact, the company takes pride in lighting up 99.9 percent of peninsular Malaysia.

With 33,500 employees and around 8.3 million customers, TNB has received a string of prestigious accolades for its service and performances, both domestically and abroad.

Operating mainly in power generation, transmission, and distribution, TNB is present in Saudi Arabia, Kuwait, Pakistan, Indonesia, and East Asia.

In addition, TNB is also actively expanding into other emerging markets, with a focus on the Asia Pacific, the Middle East, and North Africa.

"We are right now in the geographical expansion phase. In fact, a new division was established specifically to focus on investments outside of Malaysia," said Azman Mohd.

The new division — New Business & Major Projects — serves to coordinate and manage all new business development in order to achieve its goal of deriving about $1.6 billion from non–regulated business in three years' time.

The target is clear: at least 20 percent from TNB's overall revenues in 2015 will be generated from its overseas ventures.

Propelling the growth of the conglom-

Sultan Azlan Shah Power Station in Perak, Malaysia

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erate are its subsidiaries: TNB Repair and Maintenance Sdn. Bhd. (REMACO), TNB Engineering Corporation Sdn. Bhd. (TNEC), Tenaga Switchgear Sdn. Bhd. (TSG), Malaysia Transformer Manufacturing Sdn. Bhd. (MTM), TNB Engineering Services Sdn. Bhd. (TNBES), and Tenaga Cable Industries Sdn. Bhd. (TCI), which have managed to penetrate their key markets since the 1990s.

As a result of the concerted efforts of all the subsidiaries, in 2012, TNB hit its fiscal year target of drawing in about $735 million from its non–regulated income stream, with group–wide revenue reaching $11.43 billion.

Aside from the six thermal stations and three hydroelectric plants in the country, TNB manages and operates Malaysia's national grid, and through that system, also maintains interconnection to neighboring Thailand and Singapore.

The six thermal power stations comprise coal, conventional gas– and oil–fired plants, and open and combined cycle gas turbine plants.

The generation arm of TNB has a total installed capacity of 9,041 MW, with 80.6 percent coming from the thermal plants.

Though most of its plants are presently gas-fired, TNB has intensified efforts to reduce its greenhouse gas emissions by adopting the latest technology and implementing best industry practices.

The Manjung 4 coal-fired power plant, for example, is expected to be the first ultra–supercritical power plant in Southeast Asia when it is completed in 2015.

As part of a twenty–year strategy to become one of the world's largest power companies by 2025, TNB has also committed itself to implementing green initiatives and developing renewable sources of energy, which complements Malaysia's target of lowering overall carbon emission by 40 percent by 2020, in line with most of the mature economies in Europe.

"In our electricity bill, 1 percent of it actually contributes to a fund that subsidizes the premiums for the green developers. We also have a subsidiary that deals exclusively in renewable energy," explained Azman Mohd.


TNB's National Load Despatch Center

As the leading utility company in Malaysia, and with more than sixty years of experience, TNB has attracted much interest from potential foreign investors.

Determined to grow regionally, the company has expressed openness to form partnerships with international groups.

"We are looking for Engineering, Procurement and Construction (EPC) partners, and so we are inviting, among others, U.S. players who can provide the best resources and technology, so that we can grow together," said Azman Mohd, who added that TNB's business relationship with the United States is best represented by its long-term ties with GE.

"Technology-wise, we are always looking for better technologies and more efficient ways of operating. As a vertically integrated utility, there is a whole stretch of opportunity for collaboration. This is apparent in our ongoing and strong collaboration with Siemens AG for the latest gas turbine technology," he added.

As the government tries to attract more foreign investment, TNB is consolidating Malaysia's competitive advantage by supplying affordable and reliable supply of electricity.

And with the implementation of several government measures, the country's power industry has become even more competitive and environmentally sustainable than those of its Southeast Asian neighbors.

"There is a symbiotic relationship between TNB and the country. So, in tandem with Malaysia's GDP growth, we've actually increased revenue," Azman Mohd said.

"In terms of profitability, last year was one of our strongest years, largely due to the decrease in fuel costs. In terms of performance, we continue to enhance and focus our maintenance program on preventive maintenance instead of corrective maintenance," he added.

With the steady recovery of the global economy that fuels the power demand growth, the outlook for the utility giant is nothing but rosy.


Kuala Lumpur, the nation's capital, is resplendent at night.

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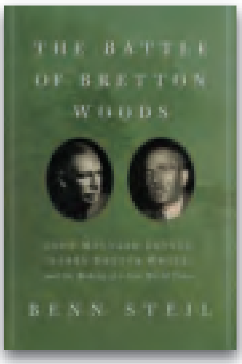

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—Paul Volcker, former Chairman of the Federal Reserve

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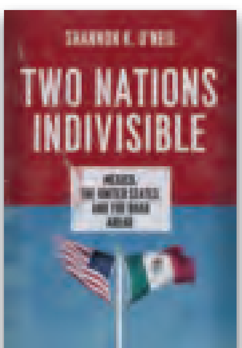

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Why American Education Fails

And How Lessons From Abroad Could Improve It

Jal Mehta

In his landmark 1973 book, *The Coming of Post-industrial Society*, the sociologist Daniel Bell heralded the United States' transition from a labor-intensive economy that produced goods to a knowledge-based one geared toward providing services. No longer could success be achieved through manual, assembly-line work; it would require advanced skills and creativity. At least since then, American politicians and pundits have regularly stressed that education holds the key to the country's future. Everyone seems to agree that good schools are prerequisites for broad economic prosperity, individual social mobility, and a healthy civil society in which informed voters engage in the public issues of the day.

Although no one disputes the value of education, how the country should improve it is fiercely contested. Every few years, along comes a new idea to save American schools, be it enforcing standards, opening charter schools, providing vouchers for private education, or paying teachers based on their performance. Most recently, two federal programs have sought to remake the U.S. education system: No Child Left Behind, a 2001 law that sought to use standards and accountability to push all students to proficiency by 2014, and Race to the Top, an Obama administration initiative that has tried to incentivize change by offering competitive grants to states pursuing reform agendas. All this activity

JAL MEHTA is an Assistant Professor at the Harvard Graduate School of Education. His most recent book is *The Allure of Order: High Hopes, Dashed Expectations, and the Troubled Quest to Remake American Schooling* (Oxford University Press, 2013), from which this essay is adapted.

Signs of a broken system: a classroom in Youngstown, Ohio, November 2009

REUTERS / BRIAN SNYDER

has generated progress in some areas, but it has not led to widespread improvement. U.S. schools still languish in the middle of international rankings, behind the schools of such countries as Estonia and Slovenia. And half a century after the end of official segregation, huge gaps continue to divide students by race and class, with the average black 12th grader scoring in reading at a level equivalent to the average white eighth grader on the National Assessment of Educational Progress, the most trusted long-term yardstick of U.S. school performance.

The United States needs a more thoroughgoing and systematic approach to educational improvement. To see what such an effort might look like, consider that any professional field consists of the following four components: human capital, which involves attracting, selecting, training, and retaining the people who work in the field; a core of knowledge that guides the field; effective organizational structures; and overall performance management and accountability. Every profession needs to set its priorities within and among these four elements; ideally, they work together in harmony.

In recent years, the U.S. education system has become overly focused on the last element—accountability—at the expense of progress on the others. The most ambitious federal education reform in recent years, No Child Left Behind, increased accountability by measuring schools annually on student tests in reading and math, with escalating consequences for those that did not improve. But it largely failed to address the other elements of the field, an imbalance that partially explains why the initiative has not achieved its aims. By contrast, stronger professions in the United States, such as medicine, law, and engineering, focus more on building their foundations than on holding their practitioners accountable. Doctors, for example, must clear a series of high bars before entering the field; develop a broad knowledge base, through course work and then extensive clinical training; and continually revisit their training, with practices such as hospital rounds. The medical profession places less emphasis on setting targets and making sure physicians meet them—there is no such thing as No Patient Left Behind.

Other countries, meanwhile, have figured out a better way to educate their children, one that looks less like the United States' education system and more like its stronger professions. Recent international research suggests that the countries that top international education rankings owe their success to approaches that are in many ways the inverse of the American one. Such countries—which include Canada, Finland, Japan, Singapore, and South Korea, top scorers on the Program for International Student Assessment, an internationally recognized test for 15-year-olds that measures higher-order problem solving in math, reading, and science—all do certain things similarly. They choose their teachers from among their most talented graduates, train them extensively, create opportunities for them to collaborate with their peers within and across schools to improve their practice, provide them the external supports that they need to do their work well, and underwrite all these efforts with a strong welfare state. Because these countries do a good job of honing the expertise of their educators to begin with, they have less of a need for external monitoring of school performance.

If the United States wants to lead the world in student achievement, it will need to borrow some ideas from the countries that currently top international rankings. Rather than simply holding accountable the teachers and schools that have failed to live up to expectations, the country will need to build a new system from the ground up—an expert profession that can consistently deliver high levels of performance.

SCHOOLHOUSE AS FACTORY

The U.S. school system assumed its contemporary form a little more than a century ago, during the Progressive Era. In one generation, between 1890 and 1920, a group of civic elites transformed a country of one-room schoolhouses into a set of district school systems. Influenced by prevailing models of business organization, which prioritized efficiency, this system empowered mostly male superintendents to act as the CEOs of school districts, where mostly female teachers would follow the rules and programs that their superiors chose.

In this hierarchical model, teachers had little formal power to resist dictates from above, although the system's "loose coupling"—the lack of close monitoring of practitioners by supervisors—gave teachers considerable control over what happened inside their classroom walls. Teachers received minimal training, the assumption being that they did not have a complicated job. The top education schools mostly avoided training teachers, seeing teaching as carrying the stigma of low-status, feminine work; they instead focused on cultivating the male administrators who would govern the system.

For half a century, this model worked relatively well, largely because the expectations for what schools needed to produce were fairly limited. Loose coupling left the teachers with enough autonomy to make them feel as if they were in charge. School boards and superintendents had enough formal power to preserve the sense that their school systems were supervised and, since these leaders were elected or appointed by elected officials, that the schools were subject to democratic control. Teachers were mostly women, who had few other employment options and were generally not the breadwinners in their families, so their low pay did not provoke significant resistance.

More broadly, Americans tolerated the system because by 1960, most white students graduated with a high school degree, which qualified them for middle-class occupations in manufacturing and other similar sectors, regardless of how much they had actually learned in school. A small number of privileged youth went to better public schools or to private schools and then on to college. The result was that people throughout the system got what they needed, even though the country was not doing much to maximize the learning of all its students.

Over the past 50 years, the limits of this model have become more apparent as the expectations for schooling have increased. Driven both by civil rights imperatives and the shift from an industrial to a post-industrial economy, policymakers now expect all students to achieve at fairly high levels. But the means to realize these ambitions are not there. American poverty rates, always high by international standards

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because of the country's weak welfare state, have been exacerbated by the collapse of manufacturing and increasing segregation and joblessness in many of the nation's largest cities—and schools in high-poverty neighborhoods have been largely impervious to reform. Educated women, who had always turned to teaching in large numbers, have seen their options proliferate, shrinking the talent pool for the profession. The highly decentralized nature of U.S. education has become a weakness rather than a strength, because, as the scholars David Cohen and Susan Moffitt have pointed out, it has limited the ability of the federal government to foster good teaching throughout the nation. Now, the country wants consistent, high-level performance across the school system, but it has not built the system to achieve that.

The result has been a vicious cycle in the interaction between policymakers and practitioners, one that leaves little hope for the much-needed improvements in American education. Policymakers understandably want to intervene in the failing system, given the highly uneven performance among schools, with dropout rates as high as 40–50 percent in some urban districts. They have done so through a variety of mechanisms, but most notably through an effort to set higher standards for student performance and to create consequences for schools that fail to improve. Teachers, for their part, resent the external mandates developed by people who know little of their daily work and who are unwilling to provide the social support that their students need. Teachers' unions worry that their members are being scapegoated for their schools' failure, and so they frequently harden their positions and seek to resist what they see as unfair and unwise external accountability measures. Many policymakers, in turn, see schools as units that need tighter coupling to overcome the teachers' opposition and think of unions as an obstruction to necessary reforms. The cycle continues, with each group playing its appointed role, but with no improvement in sight.

AMERICAN UNEXCEPTIONALISM

The country needs to stop this downward spiral and build a better system from the ground up. A good place to start would be to address the technical requirements for teaching. Education scholars identify three kinds of knowledge that good teachers have: "substantive knowledge," that is, knowledge about the subjects they teach; "pedagogical knowledge," about how to teach; and "pedagogical content

Top of the class: at an elementary school in Fukushima, Japan, April 2011

REUTERS / CARLOS BARRIA

knowledge," about how students are likely to understand the subject, what errors or preconceptions they may harbor, and how to respond to these misunderstandings. Good teachers know how to draw on and apply these different forms of knowledge in real and fast-changing situations; research by the University of Chicago's Philip Jackson suggests that teachers make more than a thousand decisions over the course of a single day.

The problem in American education is that developing these skills is not systematized in any way. Teachers learn mostly through experience, and U.S. teachers generally report that the training they do receive is of limited utility in practice. Licensing exams for teachers lack the rigor of the bar and board exams that exist in law, medicine, engineering, accounting, and many other professions. Some teachers master their craft over time, but others merely learn to control a classroom. A recent study by the Bill and Melinda Gates Foundation of more than 3,000 classrooms in the United States found that over 60 percent were competently managed, meaning that the students were not unruly and did the work assigned by the teacher, but only 20 percent were engaged in ambitious learning that challenged students to think, reason, and analyze texts or problems.

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Not surprisingly, these patterns in how teachers teach are mirrored in what students can do. Results from the National Assessment of Educational Progress regularly show that two-thirds or more of American students of all ages have mastered basic skills, such as reading and recalling information, but only one-third can do more advanced work that involves the application of information or analysis. American students fall in the middle of the pack on international assessments that measure higher-order thinking, scoring 14th in reading, 17th in science, and 25th in math on the 2009 Program for International Student Assessment. Building a twenty-first-century school system will require teachers who can help students do this kind of advanced work.

What would such a system look like? Examining the countries that lead international educational rankings, several patterns emerge. Very broadly, they do a better job at nurturing human capital, developing knowledge, and helping teachers grow. Unlike the United States, whose strategy emphasizes using tests to hold teachers and schools accountable, more successful countries rely on investments on the front end to achieve quality control. The success of schools in these countries creates a virtuous cycle, boosting public support for investing in education and making teaching a more attractive profession. Although correlation is not causation and more research remains to be done, these countries share certain approaches to reform that look quite different from the ones pursued by the United States.

To be sure, the countries that lead the international assessments differ from the United States in many ways, making it difficult to directly import their lessons. Most notably, they are generally smaller and more racially homogeneous than the United States. That said, it would be wrong to conclude that the United States can learn nothing from foreign countries, particularly given how much successful educational systems have in common across otherwise very different cultures. The characteristics they share can also be seen in other, stronger professions in the United States, as well as in leading American charter-school networks, suggesting that they are central elements to improved performance.

RAISING THE BAR

Any attempt to reform American education would have to start with attracting better teachers, retaining them, and helping them develop their practice. The most striking finding of comparative international research is that the best-performing school systems draw their teachers from the top third of college graduates, whereas lower-ranking school systems do not. A recent McKinsey report found that most U.S. teachers come "from the bottom two-thirds of college classes, and, for many schools in poor neighborhoods, from the bottom third." In Finland, teaching is the single most preferred career for 15-year-olds, a priority that allows the country to accept only one in ten applicants to its teacher-training programs. Similarly, in Singapore, only one in eight is accepted to such programs. By contrast, in the United States, even the most prestigious education schools commonly accept 50 percent or more of the applicants to their teacher-training programs.

How might the United States make teaching a more attractive and selective occupation? In the past year, the country's two largest teachers' unions (the American Federation of Teachers and the National Education Association) and the Council of Chief State School Officers, which is the main organization representing state-level education officials, have released reports advocating raising the bar for entry into teaching. Under their proposals, prospective teachers would start out with provisional status for their first several years. Before becoming fully licensed, they would need to demonstrate their knowledge of their subjects and their skill in the classroom. Tenure would no longer be an expected and near-immediate step but would become an accomplishment similar to getting tenure at a university or making partner at a law firm. These changes have the potential to remake the whole field: if it became harder to become a teacher, respect for the profession would grow, and schools might start to show better results. This process could boost public confidence in schools, potentially leading to higher teachers' pay and, in the long run, a greater desire by talented people to join the profession.

A higher bar for teaching should go hand in hand with a revamped approach to teacher education. The United States has more than 1,300 traditional institutions for teacher preparation, a growing number of alternative certification providers, a smaller number of city-sponsored "teacher residencies," and a few primary and secondary schools that run their own training programs. The most successful of these programs share several common features. They attract people who majored as undergraduates in the subjects that they wish to teach, they focus more on clinical practice than on classroom theory, they choose their applicants carefully (rather than simply treating students as a revenue stream), and they use data about how their students ultimately fare as teachers to assess and revise their approaches. Ideally, many lower-quality providers would be closed, but shutting down existing programs would prove difficult politically. Instead, the equivalent of a bar exam for teachers, which could measure demonstrated teaching skills, as well as substantive and pedagogical knowledge, might achieve the same outcome. The training programs whose graduates passed this comprehensive exam would attract more applicants, whereas those whose students did not would become irrelevant.

WHAT TEACHERS KNOW

Improving teacher training will also require educators to better develop granular, usable knowledge to guide the field. Professions are fundamentally grounded in their claims to specialized information. Pilots are permitted to fly planes, lawyers to draw up contracts, and doctors to prescribe drugs because they possess an exclusive understanding of how to do these things. Teaching, however, lacks the type of codified, shared knowledge that ensures quality control in other professions—hence the huge inconsistencies from classroom to classroom. In some regards, American education today is where medicine was a little more than a century ago: instead of relying on a shared knowledge base, teachers draw on a mix of hunches, occasional research, and some outright quackery.

A major obstacle to progress in education is that nobody is specifically tasked with developing such a shared knowledge base. Education researchers write mainly for other researchers; teachers generate new ideas daily but don't necessarily share them or put them to a test; an entire industry creates classroom materials, but it focuses more on what will be bought by districts and states than on what would improve learning for teachers or students. Anthony Bryk, the president of the Carnegie Foundation for the Advancement of Teaching, has estimated that whereas fields such as medicine and engineering spend 5–15 percent of their budgets on research and development, the U.S. education system invests less than one-quarter of one percent for those purposes. Not only does the field lack knowledge; it lacks the resources and infrastructure needed to produce it.

The good news is that there are a number of independent pockets of knowledge that the profession can expand on. Education scholars have conducted serious academic research on several practical topics, including how to teach early reading, the guidelines of which are developed and specific enough to be used in the classroom. Charter-school operators and independent researchers have also studied what the best teachers and principals are doing and, through books and videos, have shared these insights. Teacher-to-teacher websites help break down the isolation of teaching and allow educators to draw on the work of their peers in developing lessons and units. Schools and teachers can turn to many commercial and nonprofit institutions that offer advice and programs, although they vary widely in quality and few mechanisms exist to separate the wheat from the chaff. What is needed is a substantial push, either from the government or from private philanthropy, to integrate these different sources of information, develop shared standards by which they can be vetted, and build new knowledge where it is lacking.

ISOLATION IS THE ENEMY OF IMPROVEMENT

Knowledge and training will be of little use without organizational processes to ensure that educators apply what they learn. K–12 education largely lacks the common standards that govern day-to-day work in other professions, such as peer review in the academy. (These are standards internal to the profession that guide everyday work, not external accountability measures, which offer punishment but little guidance.) What happens in one classroom generally has little bearing on what happens in another. This kind of isolation is the enemy of consistent improvement; if teachers are going to get better, they need time to work together, discuss lessons, reflect on their students' performance, and develop new and better approaches.

In this regard as well, the countries whose schools top international education rankings have it right. In Japanese schools, for example, teachers regularly come together to study one another's lessons and refine them. Doing this sort of work well depends on both structure and culture. Structurally, U.S. teachers spend more time in the classroom and less time planning and working with one another than do teachers in countries with higher-performing schools. Secondary school teachers in the United States teach an average of nearly 1,100 hours a year, compared with an average of 660 hours across the countries of the Organization for Economic Cooperation and Development and fewer than 600 hours in Japan and South Korea. Culturally, for growth through professional collaboration to be effective, U.S. teachers

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need to feel as though they are members of a shared profession with a common knowledge base, rather than freelancers accountable only to what they think is right.

Here, too, there have been a number of recent developments that the U.S. education system should build on. Principals in the United States have historically acted mostly as building managers and have thus relied largely on administrative skills. The recent push for greater academic performance, however, has led to an increasing recognition that successful schools require pedagogical leadership, and preparation programs for administrators have started training principals on how to work with teachers to improve instruction. The field has also seen the proliferation of "professional learning communities"—teams of teachers who work together on problems that they encounter in the classroom. The challenge for the next generation will be to combine and accelerate these efforts, in particular to link the largely local initiatives to improve particular schools or districts to a broader effort to build a shared knowledge base.

Schools also need ways to more formally recognize and incorporate different levels of expertise. The U.S. education system has long operated on the principle of teacher equality—the idea that each teacher possesses equivalent levels of knowledge and skill. But this is clearly not true, and the country should not organize its schools as if it were. Singapore, for example, offers advanced teachers the same type of salary increases that in the United States are generally available only to those who move out of teaching and into administration. The United States could implement a similar system in order to create career ladders in teaching, which would formally reward teachers who have more expertise and are willing to take on more responsibility by upping their pay and status. In the long run, career ladders could better integrate teacher training into the profession. New teachers, carefully trained in effective methods by experienced mentors, would enter schools where what they had learned would be reinforced and strengthened over time; then, as they gained expertise, they would develop and share their knowledge to train the next generation.

A DIFFERENT ROLE FOR THE STATE

If the country succeeded in building a skilled and knowledgeable teaching force, the role of the state—including federal, state, and local government bodies—would change. Currently, a central part of the problem in American education is that government officials are trying to remake teaching from afar. But teaching is hard work and has proved difficult to change from above; efforts to do so have set teachers against policymakers. If the country implemented the needed processes to ensure skilled teaching—better recruitment, training, knowledge development, and school organization—teachers would come to be seen as experts, like those in other professions. The state could then shift its function from holding teachers accountable to taking on roles in which it has more of a comparative advantage and is more likely to be effective.

In particular, the state could assist in the creation of curricula, invest in research and development, screen teacher resumés, and provide expert technical assistance. It also could perform administrative functions, dealing with payroll, real estate, and food services. It could do a better job supporting students outside of school, in ways that would mitigate some of the worst consequences of the weak American welfare state. And it could retain some accountability functions: presumably, many more schools would be performing well given how much the field would be investing in training, knowledge, and organization, but if some consistently were not, they could still be closed by districts or states.

But the government should not try to micromanage education from above, putting forward an endless array of requirements, regulations, and accountability targets, in the hopes that doing so will somehow force schools to improve. This approach has been tried before, again and again, and it has yielded what the sociologist Charles Payne has called "so much reform, so little change."

The U.S. school system still bears the imprint of its origins. Created in the era of the assembly line, it was never intended to push all its students to engage in the kind of complex learning and critical thinking that the twenty-first-century U.S. economy demands. In the intervening years, the country has layered more rules and higher expectations on top of that initial structure, but it has not fundamentally remade teaching into a modern profession. To do so will not be easy; it will require political will and significant changes to long-standing institutions. But it is time to start anew and to build the school system that might actually yield the results that the country seeks and that its students deserve.

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The Church Undivided

Benedict's Quest to Bring Christians Back Together

Victor Gaetan

In terms of budget, personnel, and global reach, the Roman Catholic Church rivals the United Nations, and as far as having a track record of promoting tolerance and peace without resorting to force, it has no equal among states. Over Christianity's 2,000-year history, its message of love, charity, and self-sacrifice has kept the religion popular and influential, even in the face of relentless attacks. The Soviet Union, for example, shut down churches and waged an aggressive antireligion campaign, but Christianity has outlasted communism.

Christianity is mending a number of internal, long-standing ruptures as well. In the eleventh century, the faith splintered into the Western Catholic Church and the Eastern Orthodox Church. The sixteenth-century Protestant Reformation further damaged Christian unity. Today, however, global Christianity is poised to heal these rifts and emerge stronger than ever.

This project was made possible by Pope Benedict XVI, who retired in February, and will now be carried out by his successor, Pope Francis. When Cardinal Joseph Ratzinger became Pope Benedict in 2005, few expected him to accomplish much in the way of outreach and bridge building. In his previous position as the designated protector of church doctrine, Ratzinger had proved himself to be a strict traditionalist; in the run-up to his selection as pope, *The Washington Post* described him as "the guardian of orthodoxy."

Yet Benedict's authority as a renowned theologian and the happenstance of his German birth made him an unusually successful advocate for Christian unity. Indeed, Benedict did more during his eight-year reign to overcome the Great Schism of 1054 and the Protestant

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Reformation, and to promote interfaith dialogue, than any of his predecessors, including Pope John Paul II. In the process, he helped distinguish the Vatican's worldview from Washington's in important ways and paved the way for improved cooperation among Christians of various denominations on religious, moral, and political issues worldwide. Francis will undoubtedly continue this effort. In his native Argentina, he championed interfaith cooperation and dialogue.

A CHURCH DIVIDED CANNOT STAND

Christianity is divided into three main groups: Roman Catholics, who number 1.2 billion and constitute approximately 50 percent of all Christians worldwide; Protestants, who are divided into thousands of denominations and together number 801 million, or 37 percent of the global total; and Orthodox Christians, who make up 12 percent of Christians with their 260 million adherents (approximately 39 percent of whom live in Russia). According to the Pew Forum on Religion and Public Life, Catholicism is growing fastest in Asia and Africa. Protestantism is also spreading globally: of the countries with the top ten Protestant populations, only two are in North America or Europe.

As these churches have grown in recent years, they have also grown closer together. Ecumenism—the movement to unify Christianity—is on the rise, partly in response to secularization, which tends to marginalize Christianity's relevance, and partly in response to a recent escalation in violence against Christians around the world. A shared sense of vulnerability has drawn Christians closer together, but it took Benedict's push to institutionalize this effort in ways that will continue long after the end of his tenure.

Benedict began his pontificate with a strong existing foundation for pursuing ecumenism. The Second Vatican Council, a three-year assembly convened in the early 1960s, fundamentally changed how the church did business and made broad Christian unity possible. One of the council's key documents, *Unitatis Redintegratio* (Restoration of Unity), issued in 1964, identified "restoration of unity among all Christians" as a key long-term goal. The document described baptized Christians who profess faith in another church as "separated brethren," not as "heretics," the term commonly used for centuries prior. And in 1964, the Roman Catholic Church and the Eastern Orthodox Church canceled their mutual excommunications of one another (dating back to 1054), thereby allowing interchurch dialogue to begin.

Mass appeal: Pope Benedict with the archbishop of Constantinople, December 2006

REUTERS / OSSERVATORE ROMANO

John Paul II furthered these efforts over the course of his papacy. He made specific inroads with several Protestant denominations, allowing former Episcopal priests to become Catholic priests and accepting some Episcopal parishes into the Catholic Church, as well as signing a joint declaration with the Lutheran World Federation that resolved a key doctrinal difference over what is known as "justification"—how a sinner gets to heaven. John Paul II was also the first pope to visit a majority Orthodox country: Romania, in 1999. Later, he also traveled to the Orthodox countries of Bulgaria, Georgia, Greece, and Ukraine. Still, he was never able to achieve his dream of meeting with Alexy II, then the Russian patriarch and one of the most powerful figures in the Eastern Orthodox Church.

That failure was due in part to the Cold War, when the Soviet Union treated the Polish pope as an anticommunist agitator. But even after the collapse of communism, palpable tensions kept Catholics and Orthodox Christians apart. These disputes included Catholic property claims against the Russian state, which had expropriated, repurposed, or destroyed thousands of churches, monasteries, and ecclesiastic buildings during the Soviet era; Orthodox fears that Catholics and other missionary churches would sweep into Russia to woo believers; centuries of Polish-Russian rivalry; and missteps by the Vatican in how it structured new Catholic administrative units in Russia in the early 1990s.

Relations between the Catholic Church and the Russian Orthodox Church reached a low point in 2002, when Moscow prevented Jerzy Mazur, a bishop who had been rebuilding Catholicism in Siberia, from returning to Russia from his native Poland and kicked out or banned several other Catholic priests. The Vatican's top administrator for European Russia, Archbishop Tadeusz Kondrusiewicz, complained that "an organized campaign is being waged against the Catholic Church in Russia."

BENEDICT'S BEGINNINGS

The feud began to ease with Benedict's ascension in April 2005. In his first papal message to his former peers, assembled in the Sistine Chapel, Benedict (speaking in the third person) set forth a clear platform of Christian reconciliation: "The current Successor assumes as his primary commitment that of working tirelessly towards the reconstitution of the full and visible unity of all Christ's followers. This is his ambition, this is his compelling duty. He is aware that to do so, expressions of good feelings are not enough."

Benedict began his outreach almost immediately. On his first papal trip, to Germany four months later, Benedict met with an assembly of German evangelicals and Protestants and told them that ecumenism "does not mean uniformity in all expressions of theology and spirituality, in liturgical forms and in discipline." He declared, "Unity in multiplicity, and multiplicity in unity." The pope ended his talk with a call for collaboration: "Now let us all go along this path in the awareness that walking together is a form of unity." He also pledged to promote interfaith dialogue by stressing the unifying word of God and collaborating across faiths on issues such as the defense of life and the promotion of peace.

Benedict soon inadvertently compromised his own plan to promote further dialogue, however. The next year, in a speech at the University of Regensburg, in Germany, Benedict quoted a fourteenth-century Byzantine emperor disparaging the founder of Islam: "Show me just what Mohammed brought that was new and there you will find things only evil and inhuman, such as his command to spread by the sword the faith he preached." The pope had quoted the emperor only in order to reflect on the question of whether acting unreasonably—for example, by forcing conversions through violence—was against God's nature. Benedict also took care to reject the "startling brusqueness" of the emperor's remark, calling it "unacceptable." But his citation was taken out of context and ignited protests throughout the Muslim world. The Vatican responded by conveying the pope's "sincere regret," but the rioting spread, leading to the bombing of churches in the West Bank and Gaza and the murder of a 65-year-old nun in Mogadishu, Somalia.

The speech also unnerved the Vatican by unintentionally yoking the pope to negative perceptions of U.S. President George W. Bush's foreign policy that were prevalent in the Muslim world, where many people interpreted the pope's comments as an endorsement of a "war on Islam" led by the United States. In fact, Vatican diplomats had emphatically objected to one of the most significant elements of the "war on terror": the invasion of Iraq. John Paul II had even sent a personal envoy to discourage Bush from attacking Iraq. But the Regensburg speech made Benedict look like the champion of a strategy the Vatican strongly disapproved of, and it endangered the people and communities the pope most wanted to protect.

WITH AN OUTSTRETCHED ARM

In an attempt to make up lost ground, the Vatican reconfigured Benedict's first papal visit to a majority Muslim country, Turkey, in November 2006. The initial purpose was to join Bartholomew I, the archbishop of Constantinople and the spiritual leader of the Eastern Orthodox Church, for the Feast of Saint Andrew. Many advisers counseled Benedict to cancel the trip because it was bound to spark more Muslim protests. Two days before the pope arrived, an estimated 25,000 people demonstrated against his visit in the streets of Istanbul.

But Benedict quelled the noise by showing, for the first time in his papacy, the same deft touch that his predecessor had possessed in abundance. He did this by visiting Istanbul's Sultan Ahmed Mosque, making him just the second pope in history to enter a Muslim holy place. Accompanied by Mustafa Cagrici, the mufti of Istanbul, and Emrullah Hatipoglu, the mosque's imam, Benedict removed his bright red loafers on entering as a sign of deference. Then, he stood next to Cagrici, facing Mecca, and recited a prayer—and in so doing managed to stanch Muslim fury through his show of respect.

These were meaningful gestures in the eyes of Muslim leaders. As a result, for example, a year later, King Abdullah of Saudi Arabia, the protector of Mecca, visited Rome, becoming the first Saudi monarch to visit a pope. (With about one million Catholics living in the kingdom, mostly guest workers from the Philippines with limited rights to practice their faith, the Vatican's interest in this relationship is practical.) And the pope was invited to Jordan and the Palestinian territories in 2009 and to Lebanon last September, which ended up being his last papal trip.

In Turkey, Benedict went on to meet with Bartholomew under tight security. In a prayer service at the modest Church of Saint George, Bartholomew greeted the pontiff as a "beloved brother," and Benedict responded by quoting the 133rd psalm: "Behold, how good and pleasant it is when brothers dwell in unity." The two spoke at length about the ecumenical mission and the promotion of peace through love. They prayed together before relics of Saint John Chrysostom and Saint Gregory of Nazianzus, former bishops revered by both churches. The relics had been taken to Rome in 1204 after Constantinople was captured during the Fourth Crusade. Five months before his death, John Paul II had sent them back to the patriarchate of Constantinople.

By visiting Istanbul's Sultan Ahmed Mosque, Benedict became the second pope in history to enter a Muslim holy place.

The visit culminated with Benedict and Bartholomew releasing a common statement and appearing together at the patriarch's residence in Istanbul, clasped hands held aloft. They also expressed "profound joy" that a Catholic-Orthodox theological commission, comprised of 30 experts from each faith, had overcome internal divisions and reconvened after a six-year hiatus to systematically narrow the doctrinal differences standing between the two churches.

Bartholomew presides over a tiny Orthodox community in Istanbul, increasingly hemmed in by the re-Islamization of Turkey. During his visit, Benedict demonstrated how Muslim hostility can be dealt with by supporting local Christian communities that have historically served as bridges between the East and the West. Bartholomew visited Rome several times after that, mending the Great Schism a little more with each visit. In June 2008, the patriarch participated in a Mass in Saint Peter's Basilica with the pope, during which the two men recited the Nicene Creed together in Greek, leaving out a three-word phrase ("and the son") that the Orthodox do not accept. With this deft bit of statecraft, Benedict overcame—or at least sidestepped—a significant doctrinal disagreement that had prevented cooperation between the churches for centuries.

TEAR DOWN THAT WALL

The biggest development in deepening East-West dialogue, however, came in January 2009, with the ascension of a new Russian Orthodox patriarch, Metropolitan Kirill. Kirill had served for 20 years as chair of the Russian Orthodox Church's Department for External Church Relations, a role that essentially made him the church's foreign minister. In that position, he was the Vatican's main interlocutor in the post-communist era and had already established a working relationship with Benedict by the time he became patriarch. For both John Paul II and Benedict, according to Vatican insiders, Kirill's Orthodox clerical lineage contributed to their trust: his grandfather was a persecuted priest, arrested by the Soviets in 1933; his father was a priest; and his brother is an archpriest and theology professor.

Kirill and Benedict share a belief that the survival of Western culture depends on its historic Christian values of virtue and freedom, making them natural allies. For these men, both of whom lived through totalitarian oppression, rampant secularism is a harbinger of the kind of moral collapse that can lead to instability and even tyranny. They are also both wary of radical Islam and its threat to minority Christian populations around the world.

Today, Kirill can advance his ideas from a position of strength: the Russian Orthodox Church is growing and is closely allied with the Russian government, giving the church muscle and relevance. Between 1987 and 2009, the number of monasteries in Russia grew from three to 478, the number of seminaries increased from two to 25, and the number of churches skyrocketed by 550 percent, from 2,000 to 13,000.

Political relations between the Russian Orthodox Church and Vatican City improved greatly during Benedict's tenure. In 2010, for the first time since the 1917 Bolshevik Revolution, Russia and the Vatican exchanged ambassadors based on full diplomatic recognition. Benedict's outreach to Russia helped mend the centuries-long Polish-Russian divide, which in part explains the cold shoulder Moscow usually gave John Paul II. In the summer of 2012, the Roman Catholic bishops of

Poland and the Russian Orthodox patriarch joined together in Poland to urge Poles and Russians to overcome their "mutual prejudice." It was the first time a Russian patriarch had ever visited modern Poland, and the event was broadcast live on Polish television.

The growing warmth between the Catholic and Orthodox churches helped pave the way for these positive developments, but so did respectful relations between Russian President Vladimir Putin and Benedict. The two men first met in March 2007 at the Vatican, where they conversed in the pontiff's native German. During the visit, according to a U.S. State Department cable released by the whistleblower website WikiLeaks, Putin, who is a practicing Orthodox Christian, pledged that his government would "do all it can to favor dialogue between the two churches." The Vatican sees Russia, together with Europe and Latin America, as part of Western civilization—which is different from Washington's view.

Relations between the Russian Orthodox Church and Vatican City improved greatly during Benedict's tenure.

Good relations between Catholic and Russian Orthodox leaders will likely continue. Metropolitan Hilarion, the 46-year-old priest and composer who replaced Kirill as the church's leader for external relations, is a young star with an impressive resumé, a familiar face in Rome who is also comfortable in the United States and throughout Europe, and a determined advocate of ecumenism. He advocates the importance of the Catholic and Orthodox churches' coordinating their answers on moral questions and waging a coordinated fight against Western "Christophobia." In 2009, for example, the European Court of Human Rights declared that Italian public schools should remove all crucifixes from their classrooms because they are violations of the Europe Convention on Human Rights. The Roman Catholic, Russian Orthodox, and Greek Orthodox churches successfully worked together to reverse the ruling.

More recently, when the Russian government was coming under intense international fire for jailing three members of the punk band Pussy Riot for initiating a guerrilla-style political protest on the alter of a historical Moscow cathedral, Catholic and Protestant entities sent letters of support to the Russian Orthodox Church. As the Catholic Church's Council of European Bishops' Conferences explained, they "reject the tendency to misunderstand freedom of art and freedom of expression when there is in fact instigation . . . for provocative purposes in order to damage religious peace or to incite hatred against religion or religious presence in public life."

In a congratulatory note to Francis, Kirill praised the positive relationship that developed between the two churches under Benedict. He emphasized the need to "join forces" to defend persecuted Christians and promote "traditional moral values in modern secular societies." Francis is familiar with the Eastern Orthodox faith: in Argentina, he served as the chief church administrator for Eastern-rite Catholics, who follow the Orthodox liturgy while maintaining loyalty to Rome. Thus, the new pope is already attuned to the history and nuances of the Orthodox faith.

REFORMING THE REFORMATION

In an unprecedented push for Christian unity, Benedict invited several special guests to a synod of bishops last October. Both Hilarion and Bartholomew were in attendance. And for the first time in history, such a synod featured an address by the spiritual leader of the Church of England. The archbishop of Canterbury, Rowan Williams, delivered an address on the importance of contemplation—the meditative attitude that underlies prayer, religious art, and wisdom—and the next day, he and Bartholomew joined the pope at a Mass celebrating the 50th anniversary of the Second Vatican Council.

Williams and Benedict have maintained a warm friendship ever since the pontiff's 2010 trip to the United Kingdom to beatify an Anglican convert to Catholicism, Cardinal John Henry Newman. During this trip, Benedict became the first pope to enter Westminster Abbey, which had been a Catholic Benedictine abbey until King Henry VIII converted it into an Anglican cathedral after England's split with Rome in the mid-sixteenth century. Henry VIII's dispute with Catholicism centered on papal primacy; on most other matters, the king agreed with Catholic theology. As a result, there are few doctrinal differences between the Roman Catholic Church and the Church of England (known as the Episcopal Church in the United States), easing the task of reconciliation.

Indeed, relations between Catholics and Anglicans improved under Benedict's leadership. In 2011, against the advice of British bishops, the pope created a unique canonical structure to receive groups of

Anglicans into full communion with Rome. Benedict established three "personal ordinariates," in the United Kingdom, the United States, and Australia, to accommodate clergy (including married priests, but not married bishops) and believers who want to convert to Catholicism while maintaining "liturgical, spiritual, and pastoral traditions." Each ordinariate is led by a former Anglican priest who has executive authority over the community and reports directly to the pope. The Vatican says it crafted this policy in response to requests from hundreds of Anglicans around the world, including over 50 bishops, who expressed interest in joining the church without losing their traditions.

The forces that unite the faithful are more powerful than the somewhat obscure doctrinal differences that divide them.

Given what he could have perceived as the Catholic Church's theft of Anglican followers, it is remarkable that Williams not only maintained cordial relations with Benedict but also went out of his way to join him at religious services. Anglican leaders viewed Benedict's actions not as poaching but as a means of preserving a common Christian identity. Reacting to the pope's resignation, Justin Welby, who replaced Williams as the archbishop of Canterbury in early 2013, praised Benedict's "great dignity, insight, and courage." Francis, too, is respected by Anglican leaders. Gregory Venables, the former archbishop for the Anglican Church of the Southern Cone of America, recently described Francis as "much more of a Christian, Christ centered and Spirit filled, than a mere churchman. He is consistently humble and wise, outstandingly gifted yet a common man."

Benedict made headway in reconciling with other Protestants as well. Broadly speaking, Protestantism, which began as a reaction to corruption in Rome, makes four main claims against Catholic theology. First, Protestants believe that salvation is obtained through faith in Jesus Christ, whereas Catholics hold that salvation is an ongoing event in which God's grace creates faith and inspires good works. Second, Protestantism rejects the Catholic hierarchy of bishops led by a pope. Third, Protestantism holds that the Bible alone is enough to guide the faithful, whereas Catholics believe that church teachings and writings throughout history are also authoritative. Fourth, most Protestant denominations interpret the Eucharist as a symbolic representation of Christ's sacrifice, whereas Catholics believe the Eucharist is the real presence of Christ.

Given these doctrinal differences, it was surprising when in 1999 the Pontifical Council for Promoting Christian Unity and the Lutheran World Federation (which represents 70.5 million Lutherans in 79 countries) signed a joint statement establishing "a common understanding of our justification by God's grace through faith in Christ." This phrase overcame almost 500 years of theological dispute and paved the way for a shared future. The statement also nullified past mutual condemnations. And in 2006, the World Methodist Council, representing 80 million people worldwide, voted unanimously to sign the agreement as well.

Christian unity will only grow stronger under Francis' leadership. The ecumenical magazine *Christianity Today* has called Francis "a pope for all Christians," and he is known for befriending, praying with, and studying the Bible with religious leaders of different faiths.

FRANCIS' FUTURE

The search for common purpose among Catholics, Orthodox Christians, and Protestants has advanced not only thanks to Benedict's efforts but also in reaction to broad global trends. In the developed world, where Christianity is threatened by secularization and materialism, the forces that unite the faithful—namely, the core beliefs that Christ is Lord and Savior and that loving one's neighbor is a spiritual requirement—are more powerful than the somewhat obscure doctrinal differences that divide them.

Meanwhile, a disturbing global trend of violence against Christian churches and believers has led church groups to pressure governments and multilateral organizations to provide protection—a campaign more effectively waged en masse. The Roman Catholic Church has diplomatic relations with 180 countries and maintains a permanent observer status in most UN organizations. When defending a Christian who has been jailed for his or her beliefs—as is happening with greater frequency, especially in Muslim-majority countries—this diplomatic network offers Christians of all stripes a powerful resource. Furthermore, Catholic, Orthodox, and Protestant leaders outside the United States believe that U.S. foreign policy since 2003, with its heavy reliance on military intervention and minimal respect for local cultures and traditions, has disastrously jeopardized Christians and the cause of peaceful dialogue around the world.

Finally, traditional Christians, whose spiritual outlook is premised on the protection of human life, the family, heterosexual marriage, and the poor, have been united across sectarian lines for some time when it comes to political issues, such as abortion and gay marriage—even when their churches have not formally collaborated. Not waiting around for formal doctrine to catch up, this Christian community is a strong force for ecumenical collaboration. It considers it urgent, not optional, to work together.

The pursuit of Christian unity will continue under Francis, not only because the new pope already has a good ecumenical track record but also because the threats of materialism, intolerance, and oppression show no signs of abating. In addition, institutional mechanisms for dialogue, such as the Pontifical Council for Promoting Christian Unity, have built up momentum that is unlikely to dissipate. And Francis is personally committed to Christian unity. For the past ten years, he has been an active leader of the Argentine ecumenical group Renewal Communion of Catholics and Evangelicals in the Holy Spirit.

Christian leaders of all denominations agree with near unanimity on the value of greater collaboration. Occasional local disputes still crop up; in Russia, some Orthodox clergy have been less than welcoming to Catholics and Protestants establishing new churches, and in parts of Latin America, Catholic bishops have expressed alarm over the rising popularity of Protestant denominations. But the leaders of the three main Christian groups favor good relations with one another and seek to spread that preference to their congregants.

Finally, Benedict's last act as pope, his surprising decision to walk away from the job, should also contribute to the cause of Christian reconciliation by helping the Catholic Church rethink the nature of papal authority—the very subject that has, to date, posed the greatest obstacle to Christian unity.

Francis' behavior so far indicates a rethinking of the papacy. On the balcony of Saint Peter's Basilica, immediately after his selection, he referred to himself as "bishop of Rome," the most modest papal title. Francis dresses and travels unpretentiously and discouraged peers from spending money to attend his installation. All this reveals a plan to undercut the imperial trappings of the papacy—a goal already respected by other Christian leaders. Francis will certainly uphold Catholic doctrine, but by making Jesus Christ and the gospel the central focus of his pontificate, he will enhance Christian unity as well.

Why the U.S. Army Needs Armor

The Case for a Balanced Force

Chris McKinney, Mark Elfendahl, and H. R. McMaster

Ever since World War II, the United States has depended on armored forces—forces equipped with tanks and other protected vehicles—to wage its wars. General Omar Bradley, the senior field commander of the U.S. ground forces that conquered Nazi Germany, noted in his official after-action report that tank warfare, especially when combined with airpower, proved essential in defeating the Wehrmacht. "The air-armor team is a most powerful combination in the breakthrough and in exploitation," he wrote, adding, "the use of this coordinated force, in combat, should be habitual." In the decades that followed, the U.S. military frequently employed armored forces, relying on them during the Korean War, the Vietnam War, the Gulf War, the Afghan war, and the Iraq war.

Organized into units called "armored brigade combat teams," which consist of about 4,500 soldiers outfitted with Abrams tanks and Bradley Fighting Vehicles, the U.S. Army's armored forces are among the most expensive ground formations to train and equip. They require more time to deploy and a considerable amount of resources to sustain. Yet they have been invaluable on the battlefield. Thanks to their speed, protection, and firepower, along with their ability to work in concert

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with many other types of ground forces, armored forces have played crucial roles in defeating enemy militaries, toppling hostile regimes, fighting insurgents, and establishing security. Their ability to keep pace with fast-moving aircraft has made them particularly useful when operating as part of an air-ground team. Against enemies concentrated or dispersed, they have delivered rapid, successive blows, turning tactical gains into strategic successes.

Despite their utility, however, some critics have begun to question the value of armored forces. They argue that the United States' "pivot" to Asia relies more on naval and air forces and that the use of NATO airpower in Libya foretells a future way of war that has little need for ground forces, particularly armored ones. Meanwhile, looming budgetary constraints, along with the army's ongoing downsizing after Afghanistan and Iraq, have enhanced the appeal of lighter, smaller, and cheaper forces.

But armored forces are an essential part of a capable U.S. military. Not only have their unique qualities served the United States well in past wars; those features will also prove necessary for fighting the wide range of military operations the country is likely to take on in the future. In a 2011 document outlining U.S. defense strategy, the Joint Chiefs of Staff stated that the military exists to "prevent attacks against the United States and its allies, strengthen international and regional security, and be prepared to deter and defeat aggression." If the United States fails to maintain an adequate armored combat capability, it would be hard-pressed to fulfill those vital national security goals. And U.S. Army soldiers would face much greater risks.

STATES ON STATES

One of the United States' global roles is to deter adversaries from committing acts of aggression. In large measure, deterrence rests on the ability to defeat the militaries and proxy forces of hostile states. Because they are well suited to seizing terrain and exercising control over populations and resources, armored forces are critical both to deterring aggression and to winning conflicts when deterrence fails.

That value was apparent during the 1990–91 Gulf War. To expel Saddam Hussein's forces from Kuwait and eliminate their capability for further aggression, the United States and its coalition partners employed a ground force that included six armored divisions, two armored cavalry regiments, and a separate armored brigade, all of which were equipped with tanks, mechanized infantry units, and attack helicopters. Even though the United States completely dominated the air and the sea, it still relied on armored forces to defeat Iraq's Republican Guard. After the conflict, Washington demonstrated its continued commitment by stationing large numbers of armored ground forces next door in Kuwait, which continue to reassure U.S. allies in the region and deter aggression to this day.

When the United States invaded Iraq in 2003, it again relied heavily on armored forces. Military planners had expected U.S. forces to make contact quickly with Iraqi forces, but in the offensive push to Baghdad, Saddam's military proved elusive. Units assigned to the U.S. Army's V Corps, the main force invading Iraq, discovered that almost every mission was a "movement to contact," meaning that soldiers found themselves encountering both conventional and unconventional forces at unexpected times and places. As a result, they had to fight for information and quickly develop their own understanding of the situation in battle.

Armored forces are critical both to deterring aggression and to winning a conflict when deterrence fails.

Even large Iraqi units were able to achieve surprise. When the Third Infantry Division crossed the Euphrates River, for example, an undetected Iraqi armored brigade launched a sudden counterattack. In this chaotic environment, the division's armored forces possessed enough protection to bear the brunt of the enemy attack, enough mobility to maneuver to advantageous positions, and enough firepower to overwhelm the enemy while taking very few casualties. Within weeks, U.S. forces took Baghdad and Saddam's regime fell.

The United States is not the only country that recognizes the value of armored forces, which is another reason it needs to retain enough of its own. When Russia invaded Georgia in 2008, its ground forces, including armored units, took just a few days to crush the five or so Georgian brigades that had been trained by the United States. This and other episodes of armored warfare, such as Syria's use of tanks against its own population, highlight the need for the United States and its allies to retain sufficient armored forces to deter and, if necessary, confront large, well-armed ground forces.

Meanwhile, a number of militaries in the Middle East and East Asia—namely, those of Iran, Syria, China, and North Korea—also possess capable armored forces. These militaries have studied how to mitigate advanced airpower and surveillance capabilities, such as those possessed by the United States and its NATO allies. To deter these states, the United States needs a balanced force able to overcome their countermeasures—and armored brigade combat teams are a fundamental component of that balanced force. At a time when the North Korean dictator Kim Jong Un has announced the abrogation of the Korean War cease-fire, for example, armored forces already on the Korean Peninsula, as well as those stationed nearby, have remained crucial to protecting U.S. allies and interests in Asia.

U.S. armored forces also play a critical role in building capacity among friendly and allied states. Around the globe, the U.S. military advises foreign forces to help promote regional stability. Many of these militaries field large armored forces of their own, and training them how best to employ such forces requires expertise and sufficient numbers of trained personnel. Perhaps the best example is the ongoing training mission in Saudi Arabia, where the U.S. Army has provided advice and assistance to the Saudi Arabian National Guard's military schools, brigades, and headquarters for the past 39 years.

COUNTERING INSURGENTS

The wars in Afghanistan and Iraq demonstrated how important it is for the U.S. military to be able to fight not only traditional militaries but also nonstate organizations. Counterinsurgency campaigns usually evoke images of infantry squads patrolling neighborhoods on foot, but they also require tanks and armored vehicles. Protected inside armored vehicles and armed with precise firepower, soldiers can take greater risks to secure the population, holding fire until the enemy reveals its hostile intent.

The U.S. Army used tanks and armored units to great effect in Iraq, and the U.S. Marine Corps, along with forces from Canada, Denmark, and Germany, did the same in Afghanistan. It may seem somewhat counterintuitive, but the firepower provided by Abrams tanks (each armed with a large cannon and a heavy machine gun) and Bradley Fighting Vehicles (each armed with a chain gun and an antitank missile launcher) is highly discriminate. These weapons inflict less collateral damage than artillery, mortars, or air strikes, and they enable U.S. forces to overwhelm the enemy even as they protect innocents.

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Top gun: a Bradley Fighting Vehicle in Tikrit, Iraq, June 2005

REUTERS / MATTHEW ACOSTA

Moreover, unlike any other type of force, armored brigade combat teams have the versatility to scale down for low-level adversaries or scale up against more lethal enemies, even in the midst of an irregular conflict. In Iraq, during the fight for Sadr City in 2008, units that had been patrolling Baghdad in lightly armored wheeled vehicles quickly replaced them with tracked Abrams tanks and Bradley Fighting Vehicles as the violence escalated, and then returned to their wheeled vehicles after the battle. Light infantry units have no comparable ability; they can contend with more lethal adversaries only if complemented by armored forces.

The fight for Sadr City represents just one of many operations in which armored forces proved their mettle in Iraq. During battles in Karbala, Baghdad, Fallujah, Najaf, Tal Afar, Diwaniyah, and Baqubah, armored units outmatched the insurgents, protected lighter forces, and were able to maneuver through roadblocks, improvised explosive devices, and other obstacles.

The Battle of Karbala, in April 2003, is a particularly powerful case study of their value. Light infantry units of the army's 101st Airborne Division were charged with clearing Saddam's military and paramilitary forces from the city, but they immediately met stiff resistance from militiamen on rooftops firing machine guns and rocket-propelled grenades. The American foot soldiers, armed only with machine guns and light antitank weapons, found themselves unable to advance.

Until supporting armored units rolled in with their Abrams tanks and Bradleys, that is. Working as a team, the infantry and the armored units overwhelmed enemy defenses at the fringes of Karbala and allowed the light infantry to begin systematically clearing the dense city. Because every armored vehicle was outfitted with capable communications equipment, they were also able to direct close air support and precise artillery and mortar fire. Armored vehicles breached 12-foot walls and other barriers with ease. As the light forces cleared house after house, their comrades in armored vehicles protected them, established roadblocks, and ensured communications between mounted and dismounted forces. Were it not for the unique capabilities of its armored forces, the U.S. military would have paid a heavy price in Karbala.

Counterinsurgency campaigns usually evoke images of infantry squads patrolling neighborhoods on foot, but they also require tanks and armored vehicles.

Yet another lesson of the Iraq war is that armored forces need to be used in sufficient scale. The invading coalition had enough ground forces to topple Saddam's regime, but not enough to consolidate its gains and establish security. As a result, a nascent insurgency coalesced and gained strength. As the U.S. military fought to turn the tide, it learned that large numbers of armored forces were needed to establish security over wide areas.

The Israelis learned the same lesson in their 2006 campaign against Hezbollah in Lebanon. That summer, some 3,000 to 4,000 Hezbollah fighters concealed themselves in complex terrain that measured only 30 miles deep and, at its widest point, 30 miles across. To stop Hezbollah from launching rockets into Israel, the Israel Defense Forces needed to establish security over the entire area. But the IDF, trained to conduct raids in low-intensity conflicts, was never able to do so, even though it employed elements of at least four divisions, including 12 brigades and other reserve forces—a total of almost 30,000 soldiers.

The main problem was Israel's inability to employ its armored formations in close cooperation with infantry and other units. Had the IDF been able to do so, it could have used its armored forces to fight through long-range weapons fire and overwhelm the enemy through surprise, speed, and firepower. That, in turn, would have allowed them to preserve their forces' freedom of maneuver and safely get light and medium forces close to the fight. Indeed, Israel learned its lessons, changing tactics during the Gaza operations in 2009 and 2012 to great effect.

ARMORING AGAINST UNCERTAINTY

When determining what role armored forces should play in the U.S. military, decision-makers should consider not only how they have contributed to victory in the past but also how they will be needed in the future. The adversaries the United States is most likely to face in the next decade are already gaining new capabilities and taking advantage of a rapidly changing operational environment. Countering them will require a wide range of capabilities, some of which only armored forces can provide.

Some defense analysts have argued that the best way to cope with sophisticated threats is through the application of precise firepower from the air and the sea. But the United States' adversaries are well aware of its impressive surveillance and precision-strike capabilities and are already devising tactical countermeasures to defeat them. They have made plans for dispersing forces and concealing them among local populations, and they are developing technologies that will offset U.S. advantages, such as man-portable air defense systems, antitank guided munitions, and surface-to-surface rockets. Defeating elusive adversaries equipped with such weapons will require sufficient armored forces, which have the protection, mobility, and firepower to seek out and destroy enemies on the ground.

In addition to high-end threats from states and low-end threats from irregular forces, the United States must also be prepared to deal with a third type of challenge: so-called hybrid adversaries. These state-sponsored opponents are small in number, moderately trained, and often decentralized, but what they lack in manpower they make up for in firepower. Hezbollah, for example, now possesses mortars, rocket-propelled grenades, antitank guided missiles, long-range rockets, man-portable air defense systems, and even unmanned aerial vehicles. Hybrid adversaries can also attack U.S. forces by resorting to cyberwarfare, GPS jammers, and improvised explosive devices. The most effective way to defeat such organizations is by establishing control over territory and the people living there—a kind of mission that cannot be accomplished without armored forces.

As military technologies continue to spread, all three types of adversaries—states, nonstate actors, and hybrid entities—will employ advanced weapons to deny U.S. forces the ability to operate in protected areas. To address this challenge, the military will need armored forces to fight their way through long-range weapons fire and gain physical contact with hard-to-find opponents. Tanks and armored vehicles can maneuver quickly to strike the enemy from unexpected directions with multiple forms of firepower at a range of two to three miles. With the right training, organization, and equipment, armored forces can survive and succeed in the face of highly capable enemies.

A FORCE FOR THE FUTURE

At a time when budget constraints are forcing the Pentagon to make tough choices, the army's armored forces may seem like an extravagance. And at a time when precision-guided missiles can destroy faraway targets in seconds, tanks and armored vehicles might appear obsolete. To some, armored forces look like a hulking, overpriced holdover from a bygone era.

Nothing could be further from the truth. The U.S. military's armored forces have played a vital role in deterring aggression, toppling regimes, and defeating conventional forces and insurgents alike. And they will become even more important as potential adversaries continue to adapt to the U.S. military's advantages in airpower, sea power, surveillance, and targeting. Operating alongside the army's light and medium forces, armored brigade combat teams possess the protection, mobility, and firepower needed to defeat capable state and state-sponsored enemies. Only armored brigade combat teams, moreover, have the versatility to scale down for irregular conflict and other campaigns such as peacekeeping operations, humanitarian interventions, and missions to train foreign militaries. In these and so many other ways, they act as the United States' hedge against an uncertain future.

Decisions about the U.S. Army's force structure and capabilities are complicated and rarely discussed outside the Pentagon. But they matter greatly: once taken, they will shape the military options available to the president and affect the Pentagon's ability to execute defense strategy for years to come. As the country considers how to shape the military of tomorrow, it should be wary of forfeiting the power and flexibility provided by sufficient numbers of trained and ready armored forces. Were they abandoned, such capabilities would be extremely hard to regenerate.

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Why the U.S. Army Needs Missiles

A New Mission to Save the Service

Jim Thomas

Traditionally, the core purpose of the U.S. Army has been to fight and win the United States' wars. Since World War II, this has meant planning for overseas operations to defend friendly countries against invasion, seize and hold territory, and overthrow despotic regimes. But the protracted counterinsurgency campaigns in Afghanistan and Iraq, like the one in Vietnam a generation earlier, marked a departure from the army's preferred way of war. Today, with U.S. forces out of Iraq and leaving Afghanistan, an intense debate is under way about what kind of army the United States needs.

The answer, according to most analysts, is a smaller and lighter one. The Obama administration's "pivot" toward Asia, a region traditionally dominated by air and naval forces, suggests a lesser role for the army in carrying out U.S. strategy. So does the distaste among politicians for another large-scale counterinsurgency, as do the sizable budget cuts that are now hitting the Defense Department. As the U.S. military's most labor-intensive force, the army is most affected by the rapid rise in personnel costs, which have shot up by nearly 50 percent over the past decade. Given these strategic and budgetary headwinds, the conventional wisdom holds that the army will bear the brunt of the defense cuts—and that it will decline precipitously in relevance.

The conventional wisdom, however, will prevail only if the army fails to adapt to its changing circumstances. Since the 1990s, the United States' rivals have dramatically increased their capacity to deny Washington the ability to project military power into critical regions. To date, the air force and the navy have led the U.S. response.

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But the army should also contribute to this effort, most critically with land-based missile forces that can defend U.S. allies and hinder adversaries from projecting power themselves. The army should thus shift its focus away from traditional ground expeditionary forces—mechanized armor, infantry, and short-range artillery—and toward land-based missile systems stationed in critical regions. By doing so, it can retain its relevance in U.S. defense strategy.

THE LIMITS OF LAND WARFARE

In planning for the post-Afghanistan era, the army has focused on two major efforts. The first involves expanding its forward presence to build up the defense capacity of foreign militaries using special operations forces and brigades assigned to specific regions. The second picks up where the army left off before 9/11, stressing the importance of ground forces that can decisively defeat adversaries by blocking invasions and toppling hostile regimes.

The problem is that the United States may be unable to defeat future opponents by routing their armies, controlling their territory, and deposing their leaders. Indeed, with the exception of during World War II, these objectives have rarely been achieved. During the Cold War, the United States and its NATO allies planned to defend Western Europe from the Warsaw Pact but harbored few illusions they could ever decisively defeat the Soviet Union without resorting to nuclear weapons. It was only in the 1990s that the United States first considered the prospect of invading and occupying rogue states as a strategic objective.

As the postinvasion insurgencies in Afghanistan and Iraq revealed, decisive victory is often an elusive goal, and today's list of potential adversaries does not offer much hope. Invading and occupying Iran (let alone a nuclear-armed Iran) would be neither desirable nor feasible. It strains credulity even further to imagine major land combat with China or Russia. That leaves a conflict with North Korea as the most plausible scenario for the army's preferred way of war. But South Korea, populous and wealthy, probably needs little assistance to defend itself against a land invasion.

Meanwhile, very few countries are modernizing their forces for classic ground offensives (India and Pakistan being the biggest exceptions). The broader trend in warfare is away from invasions and occupations and toward more coercive and nontraditional uses of ground forces.

Missile material: land-to-air missiles in Tokyo, April 2012

REUTERS / TORU HANAI

The Chinese and Iranian armies, for example, have built long-range rocket forces not to wage war against other land forces but to conduct coercive missile campaigns against neighboring states and to contest access to nearby seas. The Chinese military has gone so far as to establish its Second Artillery Corps as a separate service, entrusted with China's long-range missile and antisatellite capabilities.

These missile-intensive forces are better at denying opposing forces the ability to project power than conducting cross-border invasions. They represent the leading edge of so-called anti-access/area-denial (A2/AD) systems—along with air defenses, antisatellite weaponry, advanced fighter aircraft, quiet diesel submarines, mines, and cyber-weapons—which are raising the costs for outside countries to project power. Such capabilities will make it far more difficult to deploy U.S. forces in distant theaters and conduct joint operations.

In particular, A2/AD capabilities will severely limit the U.S. Army's ability to conduct expeditionary warfare. Ports and airfields, the traditional gateways into overseas theaters, will be easy targets for enemy missiles, as will the stockpiles of equipment positioned ashore that are needed to support army forces flowing into the theater. With enemy missiles also threatening the bases that host U.S.

fighter aircraft, the United States may soon enjoy only transient air superiority at best, leaving soldiers on the ground more vulnerable to air strikes. Given advances in underwater mines and submarines, enemies could threaten vital maritime routes. To make matters worse, states may not be the only actors developing A2/AD capabilities; irregular forces could also arm themselves with guided mortars, artillery, and rockets, particularly if they have a state sponsor. Hiding in urban safe havens, insurgents could use these highly accurate weapons to kill large concentrations of occupying forces.

Together, these trends suggest that this century will see dramatically fewer cross-border land invasions than previous ones. Large powers, such as Russia, will undoubtedly retain the ability to invade small neighbors, such as Georgia. Nevertheless, all great powers—not just the United States—will have a much harder time projecting power overseas. It will be much easier for any given state to deny others the ability to control the land, air, or sea in its vicinity than for that state to achieve control of those same domains itself.

MISSILES TO THE RESCUE

In response to growing A2/AD threats, the U.S. Air Force and the U.S. Navy have developed a new operational concept called "air-sea battle"—a plan for projecting power into vital regions where access is increasingly constrained. The army need not feel left out, since it could make vital contributions to the air-sea battle effort. Doing so, however, would require it to reduce its traditional emphasis on expeditionary land warfare and instead focus on establishing a constellation of forward-based missile forces stationed on the territory of U.S. allies and partners. Such a shift would represent a major change in course for the army. Although it possesses some missile capabilities for air and missile defense, as well as for short-range land attack, the army currently lacks options to strike targets further than 300 kilometers away and has no antiship missiles whatsoever.

Taking a page from the playbooks of China and Iran, the U.S. Army should establish its own A2/AD systems to deny would-be regional hegemons the ability to project power. A distributed network of ground-based missile forces could act both as a shield, protecting air and naval forces as they entered the theater, and as a sword, striking the enemy directly from afar—destroying aircraft, shooting down missiles, sinking ships, and attacking land targets. These forces would include new classes of mobile and fixed launchers that the army would have to develop and field. And like the U.S. Navy's vertical launching system, which can fire a variety of missiles, they should be capable of firing interchangeably antiship, antiaircraft, and land-attack missiles, as well as missile defense interceptors.

The army's new missile systems would prove especially useful in the western Pacific, where the army could construct antiship missile sites and conceal mobile missile launchers throughout the string of islands stretching from Japan to the South China Sea. These systems would help U.S. allies such as Japan and the Philippines defend themselves against potential Chinese aggression and limit the Chinese navy's freedom of maneuver during a crisis. Likewise, in the Persian Gulf, such forces based in Kuwait, Qatar, and the United Arab Emirates might serve as the core of a new regional defense posture. They could link together the missile defense capabilities of the Gulf Cooperation Council states and help deter Iran from launching missiles or attempting to close the Strait of Hormuz.

Land-based missile forces would have a number of advantages over their air- and sea-based counterparts. They can rely on underground fiber-optic communications rather than satellite communications, making them less vulnerable than aircraft and ships to communications jamming and antisatellite operations. They can have far deeper magazines of missiles and sustain more firepower than fighter aircraft, destroyers, or submarines. Targeting ships with cruise missiles launched from the shore would also cost far less than fielding a naval force to do the same task. Meanwhile, using ground forces rather than fighter jets for air defense would free up more aircraft for offensive strikes.

When it comes to missile defense, ground-based forces would be in the best position to take advantage of the most promising technology on the horizon: directed-energy weapons. These weapons channel electromagnetic radiation, particle beams, or microwaves to destroy targets. Within a decade, it will be possible to field high-powered laser weapons and a high-powered microwave system, which would offer virtually unlimited shots and dramatically reduce the cost per interception. Because directed-energy weapons systems depend on access to major power and cooling sources, requirements that are at odds with mobile forces, the army's leadership has historically shown little interest in the technology. Yet if the army began building overseas garrisons, it could draw on larger, stationary power sources for these weapons.

Because land-based missile forces would be forward stationed in critical regions, they would be a tempting nearby target during a crisis. So they would need to be highly survivable. That would require creating a mixture of control stations, weapons caches, and launching sites that were dispersed, concealed, and located underground, and it would require fielding mobile and camouflaged radars and missile launchers that could evade attack. These forces would also have to be networked. Ideally, the army would provide the backbone of communications and intelligence to link together similar capabilities possessed by the United States' partners in a given region. Finally, the army could also train U.S. allies, helping them field their own A2/AD capabilities and so reduce the burden on U.S. forces.

Without a new set of weapons, forward-stationed land-based missile forces could only hit land targets that were less than 300 kilometers away—too short for launching strikes against potential adversaries, such as China or Iran, that could place their key assets beyond those ranges. To maximize the deterrent value of its land-attack missile forces, the army would need to extend their range. Doing so would have the added benefit of imposing costs on major rivals, forcing them to spend resources on their own expensive missile defense systems.

But as things stand now, if the army tried to follow this path, it would run into an arms control wall. The Intermediate-Range Nuclear Forces Treaty, signed in 1987 by the United States and the Soviet Union, prohibits the United States and Russia from possessing land-based missiles with ranges between 500 and 5,500 kilometers—the range that might be required for hitting targets in larger countries. After the treaty was ratified, the U.S. Army scrapped its intermediate-range Pershing II ballistic missiles, in essence bowing out of the interservice competition to provide long-range strike capabilities.

The United States would almost certainly have to withdraw from the Intermediate-Range Nuclear Forces Treaty for the army to get back into the long-range strike business. Leaving might not be so bad: while China has become a world leader in exactly the type of land-based missiles the treaty bans, the United States has largely turned its back on them. Nor would leaving be so difficult, since Russia also looks willing to walk away from the treaty. Withdrawing could herald the beginning of a revolution in the way the U.S. military thinks about ground forces—one the Chinese have already experienced.

REBALANCING ACT

Emphasizing land-based missile forces would allow the U.S. Army to contribute meaningfully to the United States' strategic goals. By stationing such capabilities in friendly host countries, the army would reassure regional allies and enhance deterrence. It would help the United States check its rivals by constraining their ability to project power, just as they are doing to it. And the army would be creating local safe areas that would allow U.S. air, maritime, and mechanized ground forces to enter overseas theaters.

This plan would require major changes in the structure of the army. The army would have to develop new organizational units optimized for long-term stationary deployments rather than expeditionary operations. These missile regiments would have to integrate personnel and capabilities from various parts of the army, including the Field Artillery branch, the Air Defense Artillery branch, and the Space and Missile Defense Command.

Cultural obstacles would also have to be surmounted. The new capabilities would have to come from the parts of the army not focused on maneuver warfare—institutional orphans that have fared poorly in recent decades in the army's internal struggle for resources and power—and they would have to overcome resistance from armor, infantry, and field-artillery commanders, who dominate the upper ranks of the army today.

In a time of declining resources, moreover, military institutions have a natural tendency to try to retain their current composition, albeit on a smaller scale, rather than grow entirely new combat arms at the expense of more mature branches. Thus, establishing new missile forces would require strong champions within the army, as well as on Capitol Hill.

Such an expanded role for the army would not be without precedent. In the aftermath of the War of 1812, the United States turned to the army to build a string of coastal fortifications to protect U.S. ports, and for many decades following, coastal defense remained the army's principal mission. But in the aftermath of World War II, with the U.S. Navy patrolling the Atlantic and the Pacific, the army retired its coastal artillery. The time has come for the army to resurrect its coastal defense mission—not to protect American shores but to defend critical overseas theaters.

The creation of new missile forces would not portend the demise of traditional mechanized ground forces in the U.S. Army. Rather, it would establish a new pecking order in a force now dominated by tanks, artillery, and infantry. Paradoxically, establishing the army's own forward-stationed A2/AD capabilities may be the best way to preserve the viability of expeditionary ground forces, by providing them a gateway to overseas theaters. Nevertheless, just as the battleship was gradually replaced by the aircraft carrier after World War II, in the coming era, the dominance of armored vehicles and mechanized infantry is likely to wane. Embracing this trend, rather than resisting it, is the best way for the army to ensure its continued relevance.

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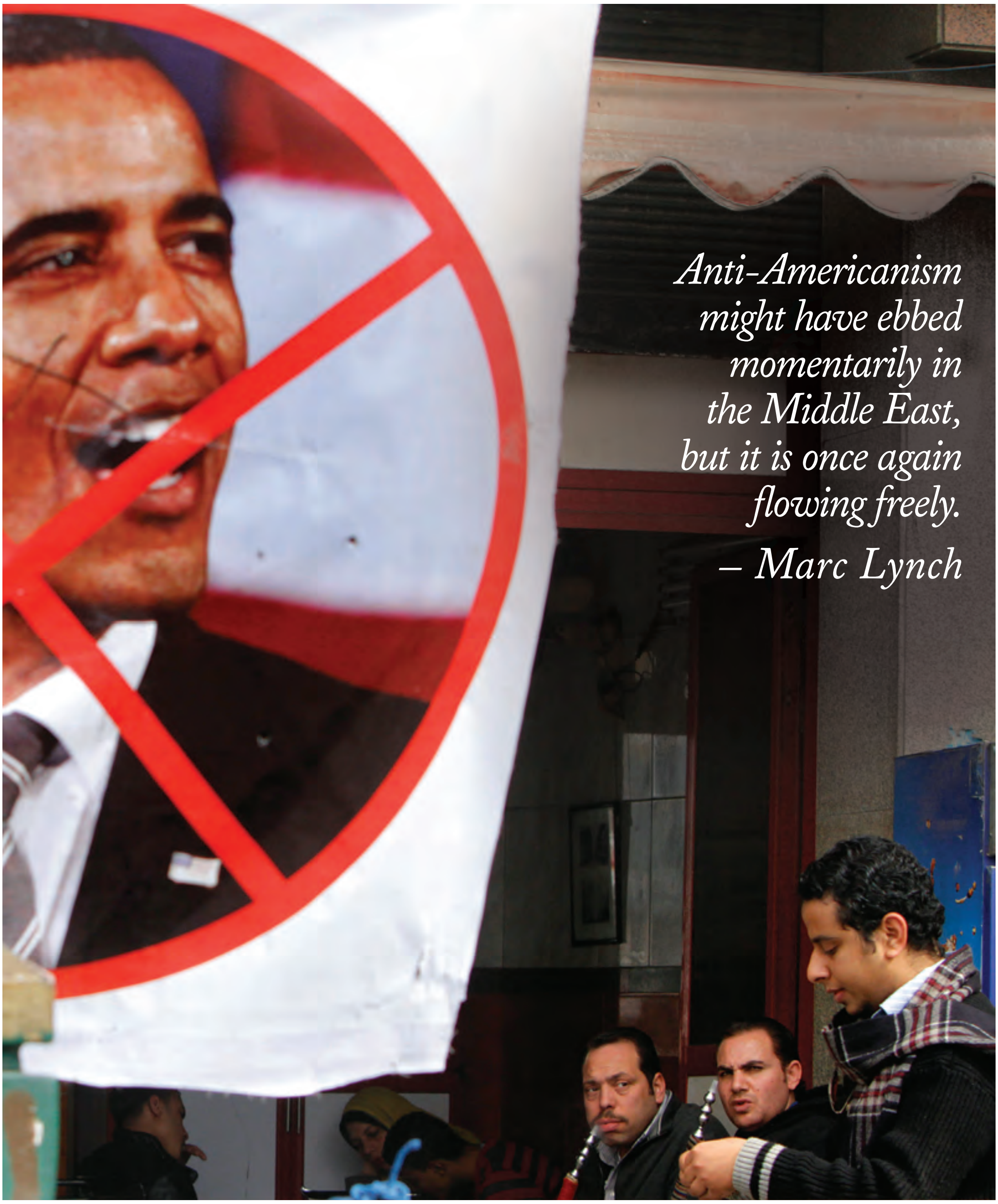
REVIEWS & RESPONSES



AP PHOTO / AMR NABIL

The Persistence of Arab Anti-Americanism

In the Middle East, Haters Gonna Hate

Marc Lynch

Of Empires and Citizens: Pro-American Democracy or No Democracy at All? BY AMANEY JAMAL. Princeton University Press, 2012, 296 pp. $75.00 (paper, $27.95).

A decade ago, anti-Americanism seemed like an urgent problem. Overseas opinion surveys showed dramatic spikes in hostility toward the United States, especially in the Arab world—a sentiment expressed all too clearly by massive crowds burning American flags and the growing prominence of Islamist extremists and terrorist groups. Many Americans, not surprisingly, saw this development as a serious threat. In a 2008 survey conducted by the Chicago Council on Global Affairs, when U.S. citizens were asked to rank the importance of Washington's goals, more placed a higher priority on restoring the country's standing in the world than on protecting jobs, combating terrorism, or preventing the spread of nuclear weapons.

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When Barack Obama replaced George W. Bush as president in 2008, however, the perceived crisis of anti-Americanism faded away. Obama pledged to engage with foreign publics and repair the United States' image abroad, an effort that peaked with his June 2009 Cairo address to the Muslim world. Early in Obama's first term, opinion surveys in the Arab world recorded a surge of more positive attitudes toward the United States, mostly in response to the popular new president. But the reprieve did not last long. Obama's relatively conventional approach to foreign policy, especially in regard to the Israeli-Palestinian conflict, proved a disappointment to Arab publics, and criticism quickly resurfaced.

In 2011, the Arab Spring sparked expectations that a shakeup in domestic politics would help the region move past its reflexive anti-Americanism and stop blaming others for its woes. Pundits marveled at the absence of burning American flags and anti-American chants among the masses demonstrating in Cairo's Tahrir Square; for once, it seemed, the anger was not about the United States. But like Obama's appeal in the Middle East, this hope also proved fleeting, as Islamist parties swept elections in Tunisia and Egypt, violent protests targeted U.S. embassies across the Middle East after an anti-Islamic video was posted on YouTube, and four American diplomats were murdered by jihadists in Libya.

It is now clear that even major changes, such as Bush's departure, Obama's support for some of the Arab revolts of 2011, the death of Osama bin Laden, and the U.S. withdrawal from Iraq, have had surprisingly little effect on Arab attitudes toward the United States. Anti-Americanism might have ebbed momentarily, but it is once again flowing freely. Meanwhile, Islamism is on the rise, and jihadist subcultures are flourishing. And the liberal and secular factions that might have seemed like natural American allies are now voicing some of the loudest complaints: they are angry at the United States when its military intervenes in the region (in Libya) and when it does not (in Syria), and they are outraged when Washington supports democratic elections (in Egypt, where Islamists won) and when it does not (in Bahrain, for example).

The persistence of anti-Americanism in the Arab world is a major theme in Amaney Jamal's *Of Empires and Citizens*, a provocative work that challenges the terms of a very stale debate among three main camps: those who see Arab anti-Americanism as the product of a deep, unique civilizational hatred; those who see anti-Americanism as simple and predictable resentment of the world's sole superpower, common across the globe and not unique to Arab countries; and those who see it as a rational response to U.S. policies that Arabs believe have systematically harmed their interests.

Jamal most closely follows the third camp, but with a twist. In her telling, anti-Americanism has very little to do with cultural resentments or civilizational hatred and is more than just a natural response to a leading world power. And although she certainly believes that policies such as Washington's "war on terror" and its unwavering support for Israel play a role in shaping Arab attitudes, she argues that they are not the core factors. Instead, Arab anti-Americanism reflects a deeper rejection of undemocratic political systems in Arab countries, which for decades have been underwritten and supported by the United States. She argues that the United States has been the main obstacle to the emergence of democracy in the Middle East, because it has insisted on "pro-American democracy or no democracy at all." It is that support for authoritarian rule, more than other frequently criticized U.S. policies, which she sees as being at the heart of Arab anti-Americanism.

If Jamal is right, then much of the received wisdom of the last decade needs to be reconsidered. Changing U.S. policies, even on high-priority issues such as Israel, would not have much effect on anti-Americanism, and efforts to promote American values in the region by waging a "war of ideas" against radical Islam would be at best irrelevant and at worst counterproductive. In Jamal's view, what the United States needs to do is precisely what she believes it cannot do: meaningfully promote Arab democracy.

Jamal's thesis is now being put to the test. The Obama administration has demonstrated that Washington is willing to accommodate change, and in the years to come, the new democratic politics of the Arab world will continue to erode the old authoritarian order that so many associate with the United States. This process, rather than a U.S.-led war against extremist ideas or changes to core U.S. national security interests, might actually turn out to represent a first step in ending the Arab world's long history of anti-Americanism.

PITY THE FELOUL

Jamal's book centers on a close examination of popular attitudes toward the

United States in Jordan and Kuwait, two small Arab states that have long been closely aligned with Washington, and includes shorter observations about opinions in several other Arab countries. Like most Arab regimes, the Jordanian and Kuwaiti governments, she argues, are essentially clients of the United States and are thus only nominally independent sovereigns. Washington plays an outsized role in shaping the political systems of such countries, especially through its support for the ruling regimes: sharing intelligence and advanced military technology and, in the case of the Gulf states, maintaining major U.S. military bases on their territory. For some Arab states, an alliance with the United States opens the door to support from international financial institutions and other international organizations and makes it easier to reach trade agreements and carrying out arms deals. In short, all political and security roads still go through Washington.

But some segments of Arab societies benefit more than others from these relationships with Washington. Educated, English-speaking, urban elites gain more than the less well off in the hinterlands or the exurbs. Those with access to cultural or financial capital profit enormously from the neoliberal economic reforms encouraged by the United States, while less-skilled laborers and agricultural workers get left behind. So although Washington's embrace is a blessing for many Arab regimes, it does not benefit all of their constituents equally.

This simple observation leads Jamal to the more complex argument that democratization stands to disrupt the patterns of patronage and access associated with U.S.-Arab alliances. Citizens of Arab states who have benefited (or who hope and expect to benefit) from greater global economic integration prefer the pro-American status quo and fear that democratization will disrupt their countries' relationships with Washington—if not ending them, then at least changing them in ways that might allow others to grab a bigger piece of the pie. This helps explain the pro-American views of groups one might assume to be hostile to the United States. For example, Jamal reports that economically successful Jordanians of Palestinian origin are more pro-American than less well-off ones, suggesting that access to the economic benefits of the existing regime can trump even the potent resentments generated by decades of dispossession.

If Jamal is correct, and individual self-interest plays a significant role in shaping Arab attitudes toward the United States, it should also influence the prospects for democracy in the region. If the social classes that benefit from the perks the United States doles out to friendly Arab governments fear that Washington's largess might dry up in the wake of democratization, then they will oppose democratization. But if they believe that democracy will not threaten the alliances with the United States, then they will not necessarily stand in the way of change.

The Arab revolts of 2011 posed a test of this idea. Jamal's description of U.S. policy as "pro-American democracy or no democracy at all" might have been accurate for most of the last few decades. But the U.S. response to the revolutions calls her view into question. So far, the Obama administration has tolerated and supported (if not embraced) the newly elected Islamist parties now in power in Egypt and Tunisia. Not surprisingly, former regime supporters—known in Egypt as *feloul*, or "remnants"—who used to enjoy a monopoly on relations with the West, now feel betrayed. Yet Obama's position has also infuriated anti-Islamist, pro-democracy liberals, who have come to see U.S. support for the democratic process as equivalent to support for the Islamist Muslim Brotherhood. Many of them expected that Washington would simply take their side, even after they proved to be weak at the ballot box. This has produced a new variety of anti-Americanism: in Egypt, liberals now accuse the United States of conspiring with the Muslim Brotherhood to usher in a new kind of authoritarian rule there, all in the name of stability.

This seems to confirm the idea, put forward most notably by the political scientists Peter Katzenstein and Robert Keohane, that persistent anti-Americanism often results from "cognitive bias"—another way of saying that people frequently see what they want to see, regardless of new information that contradicts their beliefs. After decades of castigating the United States for failing to live up to its democratic ideals by supporting authoritarian rulers, liberals in Egypt now seem incapable of accepting that Washington has changed course. In their eyes, Obama's acceptance of the Muslim Brotherhood's electoral victories cannot be evidence of a new pro-democracy U.S. policy: instead, it is simply novel evidence of the same old hypocrisy and duplicity that Egyptian liberals have come to expect from the Americans.

INTERESTS TRUMP IDEALS

Of course, since the beginning of the Arab revolts, the United States has provided ammunition to such liberal critics, mainly through its inconsistency. The Obama administration has not been able to adequately explain, for example, why it supports popular demands for democracy in Egypt but not in Bahrain or the Palestinian territories. Divining the reasons for this inconsistency is important, because understanding it will make it easier to predict how the United States might respond to future political shifts in the Arab world. As far as Jamal is concerned, however, the Arab revolts have revealed very little about Washington's posture toward the Middle East. By her lights, entrenched U.S. interests are still the primary obstacle to democratization, and hostile Arab liberals are right to dismiss the sincerity of Washington's new support for democratic change. The United States, she argues, has systematically worked to stifle any push for real democracy, and the last two years have been no different. The backlash against its role in the region, which has in turn distorted opposition politics by channeling everything through a narrow lens of anti-Americanism, should therefore come as no surprise.

But Jamal overstates this claim—and for that reason, her book is ultimately an inadequate guide to the complex relationship between anti-Americanism and democratic change in the shifting Arab world. Jamal fails to grapple with the complexities of American thinking about Arab democracy, what Washington has actually done in response to the uprisings, and the limitations on its ability to shape outcomes. She likely overstates the centrality of anti-Americanism to

Arab identity and political orientations, particularly at a time when the United States has sought a lower profile in the domestic affairs of Arab states and has moved to reduce its regional footprint.

Jamal's case might have been strengthened by addressing the issue of cognitive bias. After all, Arabs' misplaced belief in Washington's power to shape their lives is actually much more interesting than the prosaic truth. Part of that truth is that the United States has traditionally preferred stable, nondemocratic partners in the Arab world and that it has often been unenthusiastic about genuine democratization there. But the survival of Arab authoritarianism has also relied on the fact that many Arab leaders have enjoyed access to vast oil revenues or regional alliances that have allowed them to build sturdy patronage systems and massive national security institutions. They have often excelled at patronage politics and strategies of divide and rule. Jamal too easily moves past such factors and gives the United States far too much credit. U.S. support might not have hurt, but these regimes did a lot on their own to cement their survival.

Jamal also misinterprets the nature of Washington's traditional lack of support for pro-democracy opposition movements in the Arab world. It is true that the United States has never been enthusiastic about sudden democratic change in the region. Washington has benefited enormously from its alliances with friendly dictators willing to protect its interests. But Jamal misses the fact that for the past two decades, most American policymakers and analysts have argued that in the long run, such authoritarianism was doomed to fail and that more democracy in the Arab world would ultimately favor U.S. interests. For that reason, ever since the Clinton administration, the United States has generally pushed for gradual democratic reforms.

Such support for gradual reform can be seen in long-standing U.S.-funded initiatives to develop civil society in Arab countries and to encourage political reform, such as the U.S.–Middle East Partnership Initiative. Crucially, the goal of this approach has been not to change the regimes but rather to stabilize them by increasing the legitimacy of their rule. The United States pushed Egypt's Hosni Mubarak and Jordan's King Abdullah to reform because Washington feared that without some liberalization of their countries' political systems, their regimes would become brittle and vulnerable to collapse—and that whoever replaced them would be far more hostile to U.S. interests.

Jamal overlooks this nuance and instead injects a note of moral judgment into her argument. U.S. policy, she complains, has "placed the interests of the United States above and beyond the daily welfare of Arab citizens." Well, yes. In decrying U.S. support for autocracy, Jamal seems to forget that the United States' main concern is its own national interest.

HOW MUCH DO THE ISLAMISTS MATTER?

Given her insistence that U.S. policies are primarily to blame for the persistence of anti-Americanism, Jamal focuses to a surprising extent on the role of Islamist parties in determining its political salience. She argues that the importance of anti-Americanism in any particular Arab country depends to a significant degree on the nature of the local Islamist

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party. Thus, in her view, anti-Americanism is central to Jordanian politics because Jordan's Islamic Action Front is hostile to the United States (owing to the fact that its constituents do not benefit from the U.S.-Jordanian alliance and because of the local importance of the Israeli-Palestinian conflict). By contrast, since Kuwait's Islamists are more friendly to Washington (because their constituents do for the most part benefit from the U.S.-Kuwaiti alliance), so are Kuwaitis in general.

But Jamal simply asserts that Islamists are the key without proving it. This likely ascribes to those movements more influence than they deserve. Indeed, in countries such as Egypt and Jordan, as in the wider Arab world, parties and people across the ideological spectrum hold negative views of the United States. This fits Jamal's primary point—that anti-Americanism is primarily a matter of domestic political conflict—but undermines her position that the attitudes of Islamist parties are what count the most.

The Arab Spring has challenged both legs of Jamal's argument about the vital role of Islamist parties. First, there are clearly other important and effective opposition movements. And second, Islamists, for all their cultural and political antipathy to the United States, are now becoming the regime incumbents who benefit from American support. They no longer represent the vanguard of anti-Americanism: that role has fallen, ironically, to leftist and liberal opposition movements who might identify in the abstract with American values but remain marginalized in a U.S.-backed status quo—just as they were under the old authoritarian regimes. Should this lead to an enduring shift toward pro-American views among Islamists despite their profound ideological and political differences with the United States, it would offer powerful evidence in support of Jamal's thesis. But that, to put it mildly, remains to be seen.

DON'T LOOK BACK

Jamal's study focuses on Jordan and Kuwait and offers a rich and fascinating portrait of attitudes in those two societies. But these two states represent a thin and unrepresentative base on which to build a sweeping theory of Arab anti-Americanism. They are both small, highly dependent U.S. allies, after all, and their experiences probably do not apply to stronger or less dependent regional powers. It would have been useful for Jamal to have included Egypt, the most important battleground in the democratization debates. Iraq, painfully blessed by U.S. military liberation, might have made for an appropriate comparative case. So might have Turkey, where, for the past decade, Washington has accommodated itself to an elected government led by mild Islamists.

It might also have been useful for Jamal to devote more attention to how anti-American ideas and sentiments are communicated. Over the last decade, countless studies have blamed satellite television networks, such as Al Jazeera, for fueling anti-American sentiment. In the past two years, the focus has shifted to the role of the Internet and social media in mobilizing dissent and changing the contours of political discourse. Jamal does not shed much light on this new flow of ideas and information or explore whether it challenges or reinforces old cognitive biases.

But *Of Empire and Citizens* does capture something important about a bygone era of anti-Americanism rooted in the seemingly unchangeable patterns of an American imperium and the compliant dictators who abetted it. No matter how the troubled transitions under way in Egypt and elsewhere ultimately resolve themselves, there will be no going back to those old patterns. Autocrats and those who profit from their regimes can no longer assume either perpetual rule or unconditional U.S. support. Whether and how Arab views of the United States adapt to these new realities will ultimately be the test of Jamal's argument—and of the ability of the United States to navigate the turbulent new politics of the Middle East.

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Bolívar's Botched Bequest

Latin America's Liberator and the Tyrants Who Love Him

Ilan Stavans

Bolívar: American Liberator
BY MARIE ARANA. Simon & Schuster, 2013, 544 pp. $35.00.

When he died of tuberculosis in 1830, the Venezuelan revolutionary Simón Bolívar—a military leader and politician who guided Latin America to independence from colonial Spain and who is known throughout Latin America as *El Libertador*—was buried in the Cathedral of Santa Marta, in what is now Colombia. But Bolívar has enjoyed little rest since then: the Liberator's bones have been dug up several times, ultimately finding their way to present-day Venezuela. The most recent exhumation was carried out in 2010, at the behest of Venezuela's then president, Hugo Chávez. Throughout his career, Chávez had sought to link himself to Bolívar in ways large and small, even renaming his country the Bolivarian Republic of Venezuela. Chávez had his hero dug up so that forensic scientists could test whether the Liberator had been poisoned by Colombian oligarchs, whom Chávez saw as the ancestors of his own rivals.

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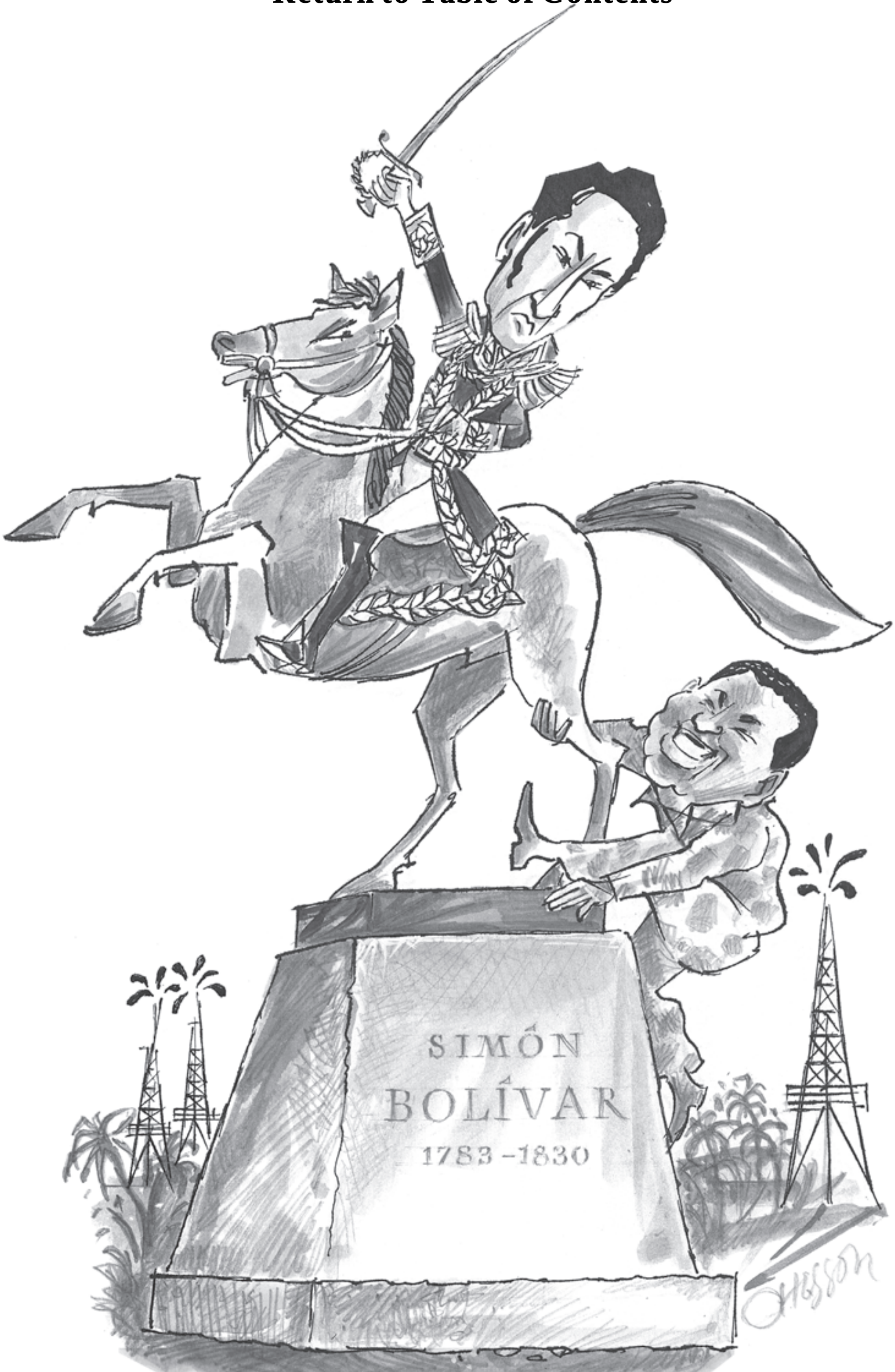
The somber business of disinterring human remains could not quell Chávez's enthusiasm for appropriating Bolívar's image, nor, for that matter, did it affect his unique sense of propriety. Watching as the Liberator's remains were brought up, Chávez took to Twitter. "That glorious skeleton must be Bolívar, because his flame can be felt," he declared. "Bolívar lives!" The tests offered no proof of foul play. But no matter; Chávez declared that Bolívar would once again be reburied, this time in a new $150 million mausoleum in downtown Caracas, the city where Bolívar was born in 1783.

Even in death, Chávez seemed to be trying to connect himself to Bolívar. Less than a week after Chávez passed away from cancer, in March, his political heir apparent, Nicolás Maduro, the interim president of Venezuela, intimated that Chávez himself had been poisoned and announced that he would invite "the world's best scientists" to investigate.

Chávez was only the latest in a long line of Latin American ideologues who have sought to appropriate Bolívar for their own ends. The Argentine dictator Juan Perón cast himself as Bolívar's heir as he tried to build a unified Latin American front against the influence of foreign powers in the region. Cuba's Fidel Castro, well to Perón's left, likes to quote the poet Pablo Neruda to suggest that Bolívar's message was one of populist solidarity: the Liberator, Neruda wrote, "awaken[s] every time the people regain consciousness."

But Bolívar's would-be inheritors span the region's ideological spectrum. Indeed, the sheer range of purposes to



which leaders have sought to yoke Bolívar's memory raises an important question: How can the most seminal figure in Latin America's political history have such an elastic legacy? Why has *bolivarismo* come to mean such different things to different people? One reason might be that even during Bolívar's own lifetime, his role changed dramatically, as Bolívar transformed from an anticolonial populist into a dictator. On a deeper level, though, the explanation might be that what Bolívar left behind was less a coherent set of ideas or a political program than an abstract vision of Latin American unity—a vision that has, again and again, proved less potent than the forces that have historically pulled the region's states and peoples apart. Unity is the great elusive dream of Latin America, and Bolívar is its Don Quixote. The fact that Bolívar failed so miserably underscores why his legacy is so important: it is the source of a pan-Hispanic quest that remains impossible.

BOLÍVAR VS. MONROE

Bolívar was the product of an age of imperial collapse. By the early nineteenth century, Spain's kingdom in the New World had grown sclerotic and retrograde. The caste system was rigid. Illiteracy was rampant. The Catholic Church lorded over the population. Meanwhile, an educated elite was quietly absorbing liberal ideas from France, the United Kingdom, and the United States, and an air of rebellion began to spread from Mexico to Argentina. Most dissidents agreed that they could not transform their societies through peaceful politics, because Spain would never compromise. Only a populist rebellion would do. Revolutionaries sought out a leader with a commanding personality, an iron will, and maybe even a hint of Moses, to take them to the promised land.

Bolívar came from an aristocratic family, which had fostered in him a sense of individualism. In his young adulthood, he traveled to Europe and the United States, immersing himself in the democratic currents that had begun to flow. Bolívar identified most strongly with the idea of national self-determination and set out to achieve it in Latin America, an area most Europeans had come to think of as peripheral. In addition to winning independence from Spain, Bolívar's goal was to prove that Latin America deserved a role in world affairs.

In the rather melodramatic version of this tale that Marie Arana presents in her new biography of Bolívar, the Liberator emerges as the itinerant hero of a magical realist novel. Arana is herself a novelist, and she renders Bolívar's life as a dramatic tale of political intrigue and heroism. But the narrative is overwrought and reductive, and Arana fails to present a broad argument about Bolívar's legacy and continued relevance.

This is a pity, especially for readers in the United States, who would be well served by an examination of the role that Bolívar's legacy has played in the troubled history of U.S.–Latin American relations. When Chávez and other Latin American populists reach for Bolívar's mantle, they often do so to vindicate their defiance of the United States, casting Washington as the present-day incarnation of imperial Spain. This insurrectionary view of Bolívar is bolstered by a good deal of Latin American historiography, which interprets the essence of *bolivarismo* as a reaction to what historians sometimes call *monroismo*. That term derives from the Monroe Doctrine, issued by U.S. President James Monroe in 1823, which announced that the United States would not interfere with existing European colonies in the Western Hemisphere but would treat any new attempts to colonize it as acts of aggression against the United States. In the view of most

Latin Americans, Washington was only pretending to support Latin American self-determination: what the United States really wanted was the region for itself, a desire made clear in 1848, when, after the Mexican-American War, Washington held on to large portions of Mexican territory in what is now the southwestern United States. Ever since, *bolivarismo* has often been defined as a corrective to Washington's hypocrisy, a rejection of foreign meddling and an authentic assertion that Latin America is for Latin Americans alone.

But Bolívar himself was more ambivalent, or at least more realistic, when it came to the issue of foreign influence in Latin America. He convinced the United Kingdom and other European countries to persuade Spain to withdraw from its colonies, and he requested that Spain's European rivals send mercenaries to join his struggle, which they did. Bolívar was a cosmopolitan member of the colonial elite, and his worldview was grounded far more in the European Enlightenment than in any belief system indigenous to Latin America. His political ideals, his conception of constitutionalism, and his understanding of the role of government were based in large part on the thinking of Thomas Jefferson and the broader principles of the American and French revolutions. He studied the histories of ancient Greece and Rome and admired the political ecosystem of Athens; he was a devout reader of Rousseau; and, in 1815, he praised the United Kingdom as a place where people "were born to rule and be free."

To replace the colonial rule of imperial Spain, Bolívar sought to create something like a United States of South America, a union of republics that would resemble the welfare state of the contemporary era, devoted not just to the security of its citizens but also to their well-being. He believed in representative democracy, and he found slavery abominable and attempted to abolish it almost 50 years before Abraham Lincoln did so in the United States. But Bolívar recognized that democracy needed to be adapted in order to accommodate the extreme economic, geographic, and racial diversity of Latin America. In part to overcome this potential obstacle to unity, Bolívar imagined that his union of states would have a president even more powerful than the one in the United States: "an individual isolated within society, yet charged with restraining the impetus of the people toward rampant license and the proclivity of judges and administrators toward abuse of the law." Bolívar believed that if the office of the president were not given enough authority, whoever held it would "inevitably fall into insignificance or be tempted to abuse his power." (Of course, in his career, Bolívar himself would prove that enjoying plenty of authority is hardly a defense against the abuse of power.)

One thing that clearly separated Bolívar from elites across the Atlantic and in North America was his views on race and ethnicity. Born into a family of upper-class criollos—the Latin American–born offspring of Spaniards—Bolívar rejected the racial prejudices that shaped his society. He argued that political progress would arrive only when leaders came to value Latin America's ethnic diversity instead of using it as an excuse to maintain a repressive social hierarchy.

And yet he was realistic when it came to the prospects for a fully unified Latin

America. The idea of merging the entire region into "a single nation with a single unifying principle to provide coherence to the parts and to the whole is both grandiose and impractical," he wrote in 1815. Considering what would become of the former Spanish colonies, he was quite prescient: "A few will constitute themselves as conventional federal and centralized republics; almost inevitably the larger territories will establish monarchies, some so wretched that they will devour their natural and human resources in present and future revolutions." Still, Bolívar demanded equal political rights for all. He never recanted this belief in the importance of equality, even toward the end of his life, when he had grown skeptical about whether Latin Americans would ever be able to govern themselves.

DEMOCRAT OR DICTATOR?

As he himself seems to have predicted, Bolívar failed in his quest to unify postindependence Latin America. He was right in recognizing that the region was a sum of incompatible parts, too large to march behind a single unified banner. But that hardly diminishes the truly remarkable military and political campaign he led to rid the region of its Spanish overlords.

Given his dual role as military commander and political leader, Bolívar, unsurprisingly, is frequently compared with George Washington. Their similarities are obvious: like Washington, Bolívar was a thoughtful man who also enjoyed the thrill of battle. Like Washington, he assumed the presidency of a new republic by rejecting the temptation to become something closer to a king—at least at first. But there the similarities end. Washington was physically imposing but modest, self-effacing, and reasonable, and he agonized over major decisions. Bolívar, by contrast, was short in stature and had a volatile temper. A master improviser with a charismatic personality, he adopted and discarded ideas with astonishing speed. Such was his tendency to leap to emotional extremes that some historians believe he might have suffered from bipolar disorder.

Perhaps the greatest difference between the two men was that although Bolívar was a shrewd military strategist, he turned out to be an incautious statesman whose instincts often led him astray. He had the stamina of a warrior, but his political judgment was flawed. Aware of this defect, Bolívar acknowledged it without hesitation. In his 1826 address to Bolivia's Constituent Congress, in which he proposed a governmental structure for that country, he confessed that he was "overwhelmed by confusion and trepidation" and admitted that he had "no talent for making laws."

Such uncertainty might explain why, following his military victories against the Spanish, Bolívar tended to delegate power to local warlords, even though they often undermined his long-term plans. But it does not explain why Bolívar, over time, became increasingly imperious, even despotic. Although he resisted the idea of becoming "the Napoleon of these lands," his ideal conception of a strong president devolved into something far more autocratic.

In 1828, faced with challenges to his authority, Bolívar dissolved the constitutional convention he had helped establish and declared himself dictator of the Republic of Colombia, giving himself the title "supreme leader." In a speech delivered in Bogotá announcing the decision, Bolívar made clear his loss of faith in democratic rule: "Colombians! I will not speak to you of freedom, because if I keep my promises, you will be more than free, you will be respected." In a startlingly frank aside, he added, "Besides, in a dictatorship, who can speak of freedom?"

Embracing the powers of a tyrant represented a dramatic reversal for a "liberator" who had once taken books by Voltaire and Montesquieu with him into battle. Indeed, perhaps the strongest link between Bolívar and his most vocal admirers in the contemporary era, such as Castro and Chávez, is the contradiction between their early appeals to liberty and their later authoritarian impulses.

Yet it remains unclear why, exactly, Bolívar gave up on democracy. Was it an emergency measure, taken to save his revolution? Or an expression of some deep-seated dictatorial leanings? Perhaps wisely, Arana does not try to solve this riddle.

By the end of his life, it seems that Bolívar was something of a mystery even to himself. Pushed from power in 1830 by uprisings against his authority, he decided to exile himself to France. But before he could set sail, tuberculosis overcame him. According to one apocryphal account that is almost certainly untrue but nonetheless revealing, Bolívar's last moments were spent reflecting on his own troubled path, and his final words were "Damn it, how will I ever get out of this labyrinth?"

BOLÍVAR NORTH OF THE BORDER

After centuries of troubled politics, Latin America finally seems to be enjoying some stable democracies. Their rise has produced an economic bonanza, at least for a handful of countries. These developments are no less a part of Bolívar's legacy than was Chávez's demagoguery. But in a strange historical irony, perhaps the most Bolivarian transformation of the past two centuries has emerged in the least likely place: the United States, where *bolivarismo* and *monroismo* have come together in the heart of the country's Latino population, which today numbers some 57 million people. It is in North America that Bolívar's unrealized dream of a pan-Hispanic identity has come closest to fruition. Latinos in the United States are hardly monolithic in terms of class, politics, or national origins. But the mere fact that such a diverse array of people is considered a group at all—not to mention one that is courted by political parties, catered to by big business, and relied on by the national economy—is a distinctly Bolivarian triumph.

Of course, it is in Latin America where Bolívar's troubled legacy still resonates most directly. His loudest champion, Chávez, is now gone. Soon, however, another Latin American leader is sure to claim the title of Bolívar's true heir. The Liberator's bones will not likely rest in peace for long.

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How to Fix America

Which Tools Should Washington Use?

Unleash the Private Sector

Edward Conard

In "Can America Be Fixed?" (January/February 2013), Fareed Zakaria argues that American democracy has grown increasingly dysfunctional since the 1970s and that "a series of lucky breaks"—namely, the end of inflation, new information technologies, globalization, and excessive borrowing, which has allowed Americans to consume more than they have produced—have covered up structural problems in the U.S. economy. He worries that these factors are now keeping unemployment high and wages low. In outlining his solution to this problem, Zakaria looks back to the 1950s and 1960s, when Washington spent lavishly on domestic investment and the economy "boomed." What the U.S. government needs to do today, he concludes, is establish "massive job-training programs" and a "national infrastructure bank" from which "technocrats" could allocate funds to public works projects based "on merit rather than . . . pork."

But Zakaria's argument is grounded in a misreading of history: although government investment in infrastructure in the 1950s and 1960s did contribute to economic growth, many other factors drove that growth as well. Moreover, it is unlikely that building new physical infrastructure would do as much for growth in today's knowledge-based economy as it did in the two decades following World War II. Finally, there is little reason to believe that politicians would allow technocrats to control infrastructure spending. And even if they did, it is doubtful that technocrats could choose investments effectively—much less with the wisdom and efficiency of free enterprise. After all, private-sector investment and risk taking, not infrastructure investment, have driven U.S. economic growth over the last two decades, and they will likely continue to do so in the future.

INVEST FOR SUCCESS

Low inflation, information technology, and globalization do not fully explain the United States' economic success over the past two decades. Europe and Japan also enjoyed these things, yet their productivity growth fell to near-record lows, while the United States' soared to near-record highs. (Productivity, which measures output per worker, is the best measure of economic success, because it excludes population expansion, which adds to GDP without raising livings standards.) In fact, the contrast is even starker than it appears, because American innovation helped boost the rest of the world's productivity. It is thus difficult to conclude that a dysfunctional U.S. democracy slowed economic growth.

Many advocates of government spending claim that productivity growth has not benefited the middle and working classes. Since the early 1980s, however, the U.S. economy has added 40 million jobs to the country's work force—an increase of roughly 40 percent. France's and Germany's work forces have grown by less than half that amount, and Japan's, by even less. Indeed, U.S. job growth was so robust over the last two decades that it pulled 14 million new immigrants into the work force. Contrary to popular belief, the United States did not outsource jobs; it insourced them. Even if wages have remained flat (a disputable point), the United States still created an enormous increase in total middle-class income relative to Europe and Japan during this time. No other high-wage economy has done more for the middle class and the working poor.

Neither debt-fueled consumption nor borrowing can explain the United States' productivity surge or economic growth. Regardless of how it is funded, consumption does not increase productivity; investment and innovation do. Nor do borrowing and lending between entities in the U.S. economy—which make up the bulk of the country's debt—account for American economic growth. (Try borrowing from yourself and see if it allows you to consume more.) Moreover, the United States has borrowed far too little internationally to impact its growth substantially. The United States has achieved its impressive economic results not only by investing more than Europe and Japan but also by making riskier investments that produced innovation. The success of these investments accounts for the United States' stellar economic performance.

Furthermore, Zakaria's statement that "Americans have consumed more than they have produced" overlooks the full value of the assets produced by the United States. GDP measures the cost of investments—but on the whole, U.S. investments have produced more value than their cost. This differential is largely responsible for driving up the value of the U.S. stock market from roughly 50 percent of GDP between the 1920s and the early 1990s to well over 100 percent of GDP today. To be sure, the U.S. government has sold a lot of one major asset—government-guaranteed debt—to foreign investors in order to fund consumption, but the U.S. economy has produced assets that are far more valuable than the assets it has sold abroad.

BRIDGES TO NOWHERE

Even though it was entrepreneurship that drove U.S. economic growth over the last two decades, Zakaria argues that infrastructure investment is now the key to jump-starting the economy. Public-sector investment in the 1950s and 1960s did contribute to the impressive economic performance of those years, but it is far from clear that the same types of investments would produce rapid growth today.

The United States in 2013 does not resemble the country it was in the two decades following World War II. In those days, government-built highways and television were just beginning to knit the U.S. economy together. Capital-intensive companies, such as General Motors and Procter & Gamble, raced to exploit previously unrealized economies of scale. Capitalizing on investment opportunities that had been postponed for two decades—due to the Great Depression and World War II—accelerated the economy, as did sending the most talented students to college, which the United States did before the rest of the world. Meanwhile, rapidly declining food prices and lower government spending (roughly

28 percent of GDP then, compared with nearly 40 percent now) freed up resources to fuel growth. But none of these factors is present today.

In the contemporary knowledge-based economy, innovation is the linchpin of growth, not physical infrastructure. The U.S. economy has grown eightfold since World War II, whereas the physical inputs it consumes have grown only threefold. Japan raised government investment to six percent of GDP after its real estate bubble burst in 1990, and that figure remained substantially higher than the United States' until 2005, yet Japan's productivity growth slowed.

Even if infrastructure investment were the key to reinvigorating the U.S. economy, it is unlikely that technocrats, much less the political process, could identify the best investments. As with biological evolution, the U.S. economy is far too complex for any one individual or organization to understand which investments will succeed and which will fail. Free enterprise picks investments successfully by running millions of experiments, and the survival of a product depends on its producing more value per dollar of cost than other products do. Competition ruthlessly prunes products that fail to meet this threshold. The public sector works in the opposite way; it undertakes large investments with virtually no competition. To grasp the problem of entrusting the public sector with making large-scale investments, one need look no further than the costly wars in Afghanistan and Iraq, the unsustainable ballooning of U.S. entitlement programs, and the failure of large increases in education spending to boost American students' test scores.

CUT THE CHAINS

Today, two major factors are restricting economic growth. First, despite a worldwide abundance of unskilled labor, there are insufficient incentives for talented workers to get the training and take the types of risks that produce innovation. Although there is an enormous shortage of information technology experts in the United States, for example, some of the country's recent college graduates remain underemployed or unemployed. Many gifted students have chosen not to seek jobs in information technology because the salaries, despite being in the upper income brackets, are too low to motivate them to pursue these tedious and arduous careers. Raising taxes on high incomes to fund more infrastructure investment would further reduce the incentives for talented people to get the training and take the risks that produce innovation. It is hard to believe that such a policy would accelerate economic growth.

Second, despite a worldwide abundance of savings, there is a lack of equity to underwrite the risks that produce economic growth. Fortunately, the United States does have more equity per dollar of GDP than either Europe or Japan. As a result, its entrepreneurs have taken more economic risks and its economy has produced more innovation and has grown faster than those of Europe and Japan. Washington can tax and spend income that investors would otherwise invest as equity, or it can leave this money in the hands of the private sector. Historically, the private sector has chosen the risks that produced economic growth far more effectively than the public sector.

For the U.S. economy to reach its full potential, Washington should return to the policies that drove economic growth over the past two decades: lower federal spending and less onerous government regulation. It is important not to conflate the causes of high unemployment and slow economic growth after the 2008 financial crisis with the policies that have underpinned the U.S. economy's long-term success. A major cause of U.S. economic sluggishness over the past few years is that the private sector now recognizes that there is an enormous risk of damage from bank runs—a risk that it thought government guarantees had mitigated after the panic of 1929. To compensate for this risk, the economy has dialed back both investment and consumption. Growth has slowed, unemployment has risen, and bank deposits and other short-term savings now sit unused. Growth is unlikely to reach its full potential until policymakers lessen this newly found risk and the economy subsequently redeploys these unused resources.

Although some argue that the government can stimulate demand in the short run by borrowing and spending idle savings, this policy is ultimately self-defeating. In the long run, deficit spending will permanently bloat the federal budget with additional interest expenses, and lawmakers will have to raise taxes to cover these costs. If they raise taxes on successful entrepreneurs, this will discourage the economic risk taking that produces innovation by socializing gains and privatizing losses. The costs of slower growth in the long run would overwhelm any benefits from fiscal stimulus in the short run.

Although reducing government spending today might contract the U.S. economy in the immediate future, doing

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so is necessary to finally return the country to economic strength. The private sector will gradually fill the void, as the public sector retreats. Raising taxes in the interim, moreover, would only slow growth further.

In order to recapture the United States' economic dynamism, President Barack Obama should reassert the prime objective of U.S. economic policy during the last four administrations: fostering private-sector investment. It was entrepreneurship, not government investment, that powered U.S. economic growth over the past two decades—and if Washington grasps this fact, the same dynamic will likely continue well into the future.

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Zakaria Replies

Edward Conard claims that my solution for the United States' problems is more government spending, and that it is a bad idea. Actually, what I argue throughout "Can America Be Fixed?" is that Washington needs to shift its focus from tax hikes and spending cuts to "reforming and investing." I describe the kinds of structural reforms the country needs, such as junking its 73,000-page tax code, curbing its out-of-control litigation system, and streamlining regulations. But I also believe that Washington needs to make significant investments in the U.S. economy, as it has done historically.

In my essay, I highlighted the fact that since the 1980s, deficit spending, by both the government and private citizens, has fueled U.S. economic growth. But increasing consumption by maxing out on credit cards is not sustainable for the long run. Conard does not directly dispute this point but argues that the United States had higher productivity growth than Europe and Japan over that period, which allegedly proves that the low taxes and deregulation of the era were the cause. Although I agree that productivity growth is the elixir of economies, a closer look at American productivity growth over time tells a different story.

From 1891 to 1972, U.S. productivity grew at an average yearly rate of 2.33 percent, which is high, but then it dropped substantially, so that from 1972 to 1996, it averaged only 1.38 percent. In other words, the Reagan-era tax cuts and deregulation did not spur productivity growth, even allowing for a time lag. Then, in 1996, productivity spiked, and from 1996 to 2004, it averaged an impressive 2.46 percent. After that, it dropped back down to the rates of the 1980s, to 1.33 percent per year between 2004 and 2012. Notice that a sharp drop in productivity growth followed President George W. Bush's large tax cuts.

So the real question is what caused productivity to spike from 1996 to 2004. The economist Dale Jorgensen and other scholars at Harvard have persuasively presented research suggesting that information technology was the obvious cause. It would explain why the United States grew faster than Europe, since the information revolution started and flourished fully in the United States. But why did that revolution take place? Clearly, the private sector and its risk taking and innovation were crucial. But the story is incomplete without also mentioning government investment.

After World War II, the U.S. government made massive investments in the nascent field of computer science, both in research and in industry. In the 1950s, it bought almost 50 percent of all the semiconductors that were produced, thus driving down their costs until the private sector could afford to buy them. Spurred by Sputnik and the arms race, Washington spent lavishly not only on basic science but also, through the Department of Defense, on engineering. In fact, California had so many engineers in the 1960s because many defense contractors were located in that state. And it was the Defense Department, of course, that funded the programs that created the earliest incarnation of the Internet.

The United States is now headed in the opposite direction. Government funding for science has been declining for years and is set to drop even more sharply in the future. (As a percentage of GDP, it is now about half what it was in the early 1960s.) At the same time, countries such as China, Singapore, and South Korea are increasing their science budgets substantially.

Meanwhile, on infrastructure spending, Conard takes an odd position. He admits that it made a big difference in the past but argues that it cannot possibly make a major impact in the future. This kind of argument, which suggests that the United States has already built everything that needs to be built, is usually associated with left-wing types concerned about "the limits to growth"—and it is ultimately unfounded. The United States needs to spend $25 billion to upgrade its air traffic control system, for example, which would allow many more planes to land at every American airport. That would translate directly into economic growth—more trade and more tourists. The United States also needs larger ports, better roads and rails, and more reliable energy to ship goods across the country and to foreign markets. And to facilitate the next information revolution, the United States will need faster broadband and cellular infrastructure. Some of these needs can be met by the private sector, but without substantial government investment in those areas, the U.S. economy will not grow as fast as it could.

Conard compares the United States to Europe and Japan at the start of his argument, but he drops the comparison when he makes his case for lower taxes and less regulation. Compared with other rich countries, the United States has low taxes and light regulations, although, as I wrote, it does need major reform in both areas to keep its economy competitive. Nevertheless, the reality is that American entrepreneurs today are working in a pretty hospitable business environment compared with the Americans of the past and the Europeans and Japanese of the present. For example, taxes on capital gains and dividends—crucial to Conard's risk takers and job creators—were much higher in the Reagan years than they are now. What distinguishes the United States' economy today, both from those of other rich countries and from its own past, is not that it has high taxes but rather that is has low investments. That is another huge deficit that the United States should be concerned about.

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Recent Books

Political and Legal

G. John Ikenberry

War, Guilt, and World Politics After World War II
BY THOMAS U. BERGER. Cambridge University Press, 2012, 265 pp. $95.00 (paper, $29.99).

For over half a century, Germany and Japan have struggled to put World War II behind them. Berger has produced one of the most sophisticated and sensitive treatments yet about how these two countries have contended with their troubled histories. Germany, with perhaps the most horrific legacy of state-sponsored brutality, has made many public expressions of remorse and contrition, adopting a relentlessly negative official narrative of its own past. Japan, in contrast, has tended to see itself as a victim as much as a victimizer. Berger shows that Japanese leaders have in fact acknowledged responsibility for the atrocities the country's forces committed in the past and have tried to make amends. The trouble is that government apologies and admissions of responsibility are interpreted differently by different audiences. The book's message to Japanese leaders is that for symbolic acts of reconciliation to succeed, they must simultaneously address the fears and grievances of Japan's neighbors and undercut nationalist movements at home.

Divided Nations: Why Global Governance Is Failing, and What We Can Do About It
BY IAN GOLDIN. Oxford University Press, 2013, 200 pp. $21.95.

In this short but persuasive book, Goldin argues that the institutions of postwar global governance—the UN, the International Monetary Fund, and the World Bank—are increasingly incapable of managing the instabilities created by global interdependence. The 2008 financial crisis is emblematic of this problem: advances in technology, financial instruments, and banking collided with outdated regulatory institutions, bringing the world economy to the brink of collapse. Goldin identifies similar potential threats of systemic breakdown when it comes to cybersecurity, pandemic diseases, immigration, nuclear safety, and climate change. Each of these problems requires large coalitions of states to commit to sophisticated, long-term collective action and global problem solving. But the recent failures of major multilateral negotiations on trade and climate change have not generated much optimism. Goldin's suggested path forward eschews new global institutions in favor of informal networks that bring governments, private groups, and experts together to form new coalitions. If globalization is to survive, it will need to be governed responsibly, with the participation of the many constituencies around the world that would benefit from more openness and interdependence.

Cyberpolitics in International Relations
BY NAZLI CHOUCRI. MIT Press, 2012, 312 pp. $54.00 (paper, $27.00).

Cyberspace is creating new ways for individuals to interact, complicating old notions of sovereignty, stability, and security. People everywhere are gaining access to knowledge and to one another, but these growing connections are also creating new vulnerabilities. Choucri has put together a systematic guide to these issues, informed by international relations theory. She has mapped a world still in the making, illuminating the new political landscape of cyberspace and the ways it complicates states' pursuits of power and wealth. The book examines the positive and negative implications of the revolution in communications technology: new ways for individuals to organize and give voice to fresh ideas, but also novel forms of crime, espionage, and war, along with new opportunities for authoritarian states to exercise control.

Anglo-America and Its Discontents EDITED BY PETER J. KATZENSTEIN. Routledge, 2012, 304 pp. $140.00 (paper, $32.95).

Sinicization and the Rise of China EDITED BY PETER J. KATZENSTEIN. Routledge, 2012, 296 pp. $145.00 (paper, $29.95).

Samuel Huntington's seminal essay "The Clash of Civilizations?" revived the nineteenth-century view of civilizations as unitary groupings of peoples, tied together by tradition, ethnicity, religion, and primordial values. In Huntington's view, these civilizations—most notably the West, China, and Islam—were not simply abstractions but actors that wielded power and that were destined to clash. In recent years, Katzenstein, a renowned scholar of international relations, has advanced a strikingly different vision of civilizations, contending that although civilizations exist and are important, they are not really actors. Rather, they are loose, pluralistic systems of belief and identity. Katzenstein objects to Huntington's essentialist view of civilizations, but he also disagrees with liberal internationalists, who see the concept of civilizations as anachronistic. In Katzenstein's view, civilizational divides do still exist, but they play out in diffuse and ambiguous ways within and between the major global cultural traditions.

Katzenstein established these arguments in *Civilizations in World Politics* (2009), the first entry in a collaborative trilogy that he and a number of colleagues have now completed with these two books, which examine the great Chinese and Western civilizations. For China, civilizational politics leads to efforts to make the world suitable for the Chinese way of life. Katzenstein sees this as a complex process of adaptation, in which elements of an older Chinese worldview that placed China at the top of a regional hierarchy are combined with more contemporary visions of order in which China, other East Asian countries, and the wider world exchange ideas and models of economics, politics, and society. Katzenstein holds that Anglo-American civilization is also full of competing and changing ideas and conceptions of identity, all of which are anchored in some core assumptions about individualism and liberal ideas about politics and society. Thus, both Chinese and Anglo-American civilizations are amorphous, evolving cultural constructs that do not direct political action so much as provide the language for an ongoing debate within and between societies about politics and policy.

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Intriguingly, Katzenstein also identifies an incipient "global civilization," a synthesis of visions and values from many civilizations. The exact nature of this synthesis remains a bit vague in these books. But if it includes the iconic internationalist ideas of openness, the rule of law, pluralism, and self-determination, then perhaps the very notion of civilizations has in fact lost its usefulness.

Economic, Social, and Environmental

Richard N. Cooper

Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else BY CHRYSTIA FREELAND. Penguin Press, 2012, 336 pp. $27.95.

Income and wealth in the United States today are less evenly distributed than at any time since the 1920s. One result is the emergence of a new class of plutocrats. The phenomenon is not limited to the United States: China, India, Mexico, Russia, the United Kingdom, and other states have witnessed similar changes. Freeland, a journalist and editor at Thomson Reuters, examines how this fairly diverse new class came to be and explores some of the consequences and potential implications of its rise. In a world of mass consumption, successful innovations can result in great wealth, as can any rapid social and political change, at least for those well placed or lucky enough to take advantage of new opportunities. More ominous, individuals can become fabulously wealthy at the expense of other citizens, by securing privileges from powerful government officials—sometimes through influencing the decision-making process, sometimes through outright bribes or offers of lucrative future employment. Freeland worries about the increasing political influence of the superrich and the growing social distance between them and ordinary people. But she has surprisingly little to say about the most traditional route to plutocratic status: inherited wealth.

Bad Pharma: How Drug Companies Mislead Doctors and Harm Patients BY BEN GOLDACRE. Faber and Faber, 2013, 448 pp. $28.00.

This book levels a scathing attack on large pharmaceutical firms and the officials who regulate them. Goldacre, a British physician, articulately and extensively documents how large pharmaceutical firms have inched up as close as possible to committing outright fraud and occasionally have crossed the threshold. According to Goldacre, major drug companies have financed the ghostwriting of papers supposedly penned by reputable scholars in respectable scientific journals, systematically withheld experimental drug-testing data from public and professional scrutiny, and failed to run promised trials to detect side effects after drugs have been approved for sale. In the face of this unethical behavior, regulators on both sides of the Atlantic have been complacent and negligent. Goldacre believes that a strong dose of sunlight could eventually disinfect the industry, and he calls for full transparency regarding past ghostwritten articles and for the publication of all testing data, except in those few cases in which patient privacy would clearly be infringed. Not incidentally, such steps would also help national health-care programs and patients avoid wasting money on expensive drugs of dubious value.

The Unloved Dollar Standard: From Bretton Woods to the Rise of China
BY RONALD I. MCKINNON. Oxford University Press, 2013, 240 pp. $34.95.

In McKinnon's view, the dollar-based international financial system has become fragile, due in part to U.S. policies. But it can be strengthened, McKinnon believes, especially with help from China. He argues that the conventional emphasis on adjusting exchange rates among currencies to reduce trade imbalances is deeply misguided and will not work without requiring significant changes in macroeconomic policies. More surprising, he believes that such changes can reduce trade imbalances without causing significant differences in exchange rates, the prospect of which can affect market expectations and destabilize cross-border flows of capital. He urges the U.S. Federal Reserve to pay more attention to stabilizing the dollar's effective exchange rate and suggests that the U.S. government should stop pressing China for a major revaluation of the yuan. He also believes that Washington and Beijing should coordinate their efforts, with the Americans tightening their fiscal policy and the Chinese loosening theirs while also trying to increase domestic spending.

The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy
BY MICHAEL PETTIS. Princeton University Press, 2013, 216 pp. $29.95.

Pettis asserts that the world economy suffers from unsustainable imbalances that must be eliminated. China, Germany, Japan, and several smaller countries enjoy large current account surpluses, while the United States and many other countries run up trade deficits. Pettis applies basic macroeconomic theory to counter the common error of thinking that any single country can eliminate its imbalances on its own. In one sense, global trade is a zero-sum game: one country's surplus is another country's deficit. But regardless of that simple truth, Pettis has little hope that countries will be able to work together to rationally rebalance one another's economies. Instead, Pettis foresees a period of reduced demand for goods and services around the world, a state of affairs that will tempt countries currently running trade deficits to protect their domestic industries at the expense of free trade. Perhaps his most striking forecast is that as China shifts its focus from investment to consumption during the coming decade, its annual GDP growth will average no more than three percent.

Misunderstanding Financial Crises: Why We Don't See Them Coming
BY GARY B. GORTON. Oxford University Press, 2012, 296 pp. $29.95.

Why did economists fail to foresee the 2008 global financial crisis, especially considering that in retrospect there were numerous signs of financial fragility? In this engaging history, Gorton answers that question through an exercise in what might be called the epistemology of modern economics. He argues that economists were blindsided by events because they were preoccupied with elegant mathematical models that incorporated few elements of financial reality. Moreover, they had been lulled into complacency during the data-rich, prosperous era that preceded the crisis. And they had little knowledge of history; indeed, many harbored a conviction that history is irrelevant to the study of modern economies. But the book is much more than an indictment. Gorton provides an analytic history of financial crises in the United States, with occasional references to those in other countries, detailing their common traits and revealing what he calls the "plumbing" that shaped financial transactions in different eras.

Military, Scientific, and Technological

Lawrence D. Freedman

The Insurgents: David Petraeus and the Plot to Change the American Way of War
BY FRED KAPLAN. Simon & Schuster, 2013, 432 pp. $28.00.

War From the Ground Up: Twenty-First-Century Combat as Politics
BY EMILE SIMPSON. Hurst, 2012, 256 pp. $32.50.

Blowtorch: Robert Komer, Vietnam, and American Cold War Strategy
BY FRANK LEITH JONES. Naval Institute Press, 2013, 416 pp. $52.95.

Much has already been written about the 2007 "surge" of U.S. forces in Iraq, which led to a marked improvement in the country's security situation. A good deal of the attention has gone to General David Petraeus' role in shaping the strategy, which was the culmination of an insurgency of sorts within the U.S. Army. In the wake of the Vietnam War, the army had developed an institutional allergy to counterinsurgency (or COIN), since it was considered to be something "other than war" and therefore not worthy of the army's attention. The story of how Petraeus' "COINdinistas" overcame that aversion to their thinking and changed army doctrine and practice is already familiar. But Kaplan has a gift for bringing to life what might otherwise seem like arcane strategic debates by linking them to the personalities and biographies of the main participants, and he vividly captures the drama of Petraeus' struggle against a Pentagon establishment that Kaplan portrays as delusional and myopic.

The COINdinistas come across as smarter than their rivals in the military bureaucracy—but this is also a tale of hubris. Buoyed by their relative success in Iraq, Petraeus and his allies believed that the surge there offered a model for Afghanistan, despite being well aware that the two situations were very different. But the Afghan surge, which President Barack Obama announced in late 2009, did not lead to a decisive breakthrough, partly because its key architects were unable to see the policy through to its conclusion. General Stanley McChrystal, a late but zealous convert to COIN, took command of the international forces in Afghanistan in 2009 but retired the following year after *Rolling Stone* published critical comments he and his staffers had made about Obama and his administration. Petraeus took McChrystal's post briefly but soon left the army to become the director of the CIA—only to resign last year after it emerged that he had engaged in an extramarital affair.

It is hard to know whether the Afghan surge would have been more successful had either of those men remained involved. But their departures surely did not make it any easier for the rank and file to carry out their mission. Their experiences on the ground in Afghanistan are detailed by Simpson, a young British officer. His book, however, is more than just a collection of anecdotes on the conduct of this particular counterinsurgency campaign: it is a disquisition on the meaning of contemporary warfare and the challenge of framing a coherent strategy that addresses the concerns of civilian populations and intervening governments alike. Drawing heavily on Clausewitz and other classical theorists, Simpson stresses the intermingling of force and politics at all levels. The result is an erudite and intelligent contribution to the literature on counterinsurgency.

Recent counterinsurgencies might have exhausted the appetite of U.S. politicians and the American public for interventions that require substantial ground forces. Still, future campaigns of that sort cannot be ruled out. After all, in the wake of the Vietnam War, many predicted that no U.S. president would ever again commit to a counterinsurgency campaign; history conspired otherwise. And the Vietnam experience still exerts substantial influence on contemporary strategic thinking. Perhaps the most lasting insights come from the career of a civilian: Robert Komer, a National Security Council staffer in the Johnson administration. Komer was famed as a tough bureaucratic operator; his nickname, Blowtorch Bob, provides the title for Jones' sympathetic biography. Komer was heavily involved in the "strategic hamlet" program in Vietnam, which aimed to separate Vietcong forces from the civilian population in the South. This role led to his association with the United States' failure in Vietnam. But Jones makes a convincing argument that Komer was, in fact, a master strategist, able to put short-term issues in their wider context and think through the likely consequences of action. Komer eventually concluded that the basic problem in Vietnam was Washington's inability to prod the South Vietnamese government to make sensible reforms that could have blunted the appeal of the Vietcong.

Nuclear Statecraft: History and Strategy in America's Atomic Age
BY FRANCIS J. GAVIN. Cornell University Press, 2012, 240 pp. $35.00.

Gavin is concerned that U.S. nuclear policy is distorted by myths about the past, and he believes that a better understanding of the history of the nuclear age would improve the contemporary approach. He worries that today's policymakers have an inadequate grasp of nuclear history, from crises to arms control negotiations, and believes that with an improved understanding, they would somehow be better able to deal with current challenges, including calls for "global zero"—a world without nuclear weapons. Gavin's ambition is admirable, but he does not quite manage to fully demonstrate the influence of myths about the past nor does he succeed in adequately debunking them. Nevertheless, there is a lot of good material here, including an interesting chapter on U.S. President Richard Nixon and Secretary of State Henry Kissinger's contributions to American nuclear strategy. And Gavin makes some sensible observations on the difficulty of ending the nuclear age, along with a persuasive argument about the need to prevent the use of nuclear weapons rather than abolishing them altogether.

The Cambridge History of War. Vol. 4, *War and the Modern World*
EDITED BY ROGER CHICKERING, DENNIS SHOWALTER, AND HANS VAN DE VEN. Cambridge University Press, 2012, 668 pp. $180.00.

This elegantly produced collection tells the story of modern warfare, beginning in the second half of the nineteenth century, a point described in the opening essay, by van de Ven, as a "hinge in time," when the Napoleonic Wars were a memory and World War I could not yet be imagined. The shock of World War I's carnage, but also the inability to get out of the political and operational mindsets that made it possible, dominates much of the book. The final essay considers "the era of American hegemony" and concludes in 2005, at an ambiguous point in the Iraq war. The volume's comprehensiveness comes at the expense of depth. But the overall standard is high, and although the book covers much familiar ground, it puts forward some smart, original thinking about the social aspects of war.

The United States

Walter Russell Mead

My Share of the Task: A Memoir
BY STANLEY MCCHRYSTAL. Portfolio, 2013, 464 pp. $29.95.

McChrystal, a retired four-star U.S. Army general, is a great American soldier and has written one of the best memoirs of life in the U.S. military. The U.S. Army that McChrystal joined after graduating from West Point in 1976 was a wounded organization, filled with anxiety, widely unpopular in the country at large, and struggling painfully with the complex experience of the Vietnam War. McChrystal vividly describes his significant role in restoring the army and reinventing the military as a more flexible, flatter, faster, and more information-driven organization. Those changes, McChrystal argues, allowed the military to snatch something like victory from the jaws of defeat in Iraq, despite facing enormous pressures, making many errors, and encountering many obstacles. McChrystal also offers a concise description of the strategy he proposed when he commanded the U.S.

and international forces in Afghanistan, arguing persuasively that it represented a reasonable approach to a difficult conflict. McChrystal resigned his command in 2010 after a *Rolling Stone* article quoted his aides criticizing officials in the Obama administration. But readers who come to this book hunting for scandals and score settling will be disappointed; self-controlled and professional to the end, McChrystal makes no complaints about the manner in which his career ended and takes no shots at the presidents under whom he served.

The Great Divergence: America's Growing Inequality Crisis and What We Can Do About It
BY TIMOTHY NOAH. Bloomsbury, 2012, 272 pp. $25.00 (paper, $16.00).

Noah writes from what might be called a neoprogressive standpoint. Like the original progressives, he seeks to blend an emotional and moral commitment to the causes of the left with the intellectual rigor of the best available economic and social science research. As in the case of the original progressives, the result is a powerful, if sometimes flawed, perspective that is likely to influence the course of American debates on issues of economic policy and justice. Noah's central contention is that government policy can and should do more to reverse the trend toward greater income inequality that has developed in the United States since 1979. Some of his policy prescriptions, such as substituting carbon taxes and value-added taxes for the deeply regressive payroll tax, could win bipartisan support; others would have to await much larger Democratic majorities than currently exist in Congress. Still, although the analysis in this relatively short and very accessible book is necessarily incomplete, and some of its contentions are more powerfully stated than convincingly argued, *The Great Divergence* is an excellent guide to the emerging center-left economic policy consensus likely to inform Democratic Party thinking and policymaking for some time to come.

What to Expect When No One's Expecting: America's Coming Demographic Disaster
BY JONATHAN V. LAST. Encounter Books, 2013, 240 pp. $23.99.

Since the 1960s, foundations, governments, and international bodies have worried about a seemingly unstoppable "population bomb." It turns out that they should have been worrying about a population bust—a collapse in the rate at which women are having children, which started in the developed world but is quickly spreading to developing countries. This trend puts enormous fiscal pressure on China, Japan, the United States, and European countries, where pension and social welfare programs rely on a growing cohort of younger people to foot the bill. In Europe, the lack of native-born children has created the need for high levels of immigration, which has led to a range of serious social problems in many European countries. But even worse for such countries would be the labor shortages they might face if fertility continues to fall in developing countries. Last takes a vigorous look at the policy and political issues resulting from this still-underappreciated seismic shift in the human condition. Even those who do not share his basically conservative outlook on many fertility and family policy issues will find this a stimulating and enlightening read.

A Nation of Takers: America's Entitlement Epidemic
BY NICHOLAS EBERSTADT WITH WILLIAM A. GALSTON AND YUVAL LEVIN. Templeton Press, 2012, 144 pp. $9.95.

Last year, the campaign of the Republican presidential candidate Mitt Romney was damaged when a videotape surfaced showing him lamenting that 47 percent of the American people "believe that they're entitled to health care, to food, to housing, you name it." Eberstadt might have offered the candidate some sympathy. Like Romney, Eberstadt is not a fan of the entitlement state. From his perspective, entitlements create not only an enormous fiscal challenge but also a culture of dependency that undermines the foundations of the American ethos of enterprise. In his essay responding to Eberstadt's arguments, Levin goes even further, arguing that the entitlement state is squeezing the life out of civil society and weakening the United States' capacity for effective self-governance. In his own response, Galston does not dispute the math but argues that taking care of the less fortunate is a sign of improved, rather than decayed, social morality. Readers will draw their own conclusions, but people wanting a quick introduction to one of the most important policy debates in the United States today (and one with significant implications for global power politics, if Eberstadt's analysis is correct) will do well to consult this useful work.

Accelerating Democracy: Transforming Governance Through Technology
BY JOHN O. MCGINNIS. Princeton University Press, 2012, 224 pp. $29.95.

"How does Athens know what the Athenians know?" is the basic question of governance, McGinnis writes. How does a polity take advantage of the wealth of information and analysis in the minds of its citizens to develop and implement policy? In the age of the Internet and "big data," McGinnis argues that the bureaucratic, centralized state of the Progressive Era is passé. Decentralization allows for more experiments in governance, whose results can be used to make better policy. Meanwhile, expert online commentary provides better and more interactive analysis than older mainstream media. Regulatory agencies will have to change the way they collect information and make decisions, he argues. On the one hand, they will have much better information to work with; on the other, they will be subject to much more intensive oversight and second-guessing by legislators and stakeholders. Not all readers will be convinced by every gee-whiz technological fix that McGinnis describes. Nevertheless, he shines an important light on a discussion that will only grow more lively as technology creates at once more opportunities and more challenges for government.

Western Europe

Andrew Moravcsik

Europe: The Struggle for Supremacy, From 1453 to the Present
BY BRENDAN SIMMS. Basic Books, 2013, 720 pp. $35.00.

This book chronicles five centuries of diplomacy, alliances, and war—all aimed, Simms argues, at asserting or blocking dominance of the European continent. The story begins with the maneuvering of absolutist monarchs before the Thirty Years' War and ends with the enlargement of the European Union. Germany, with its central location, remains the main problem throughout: its weakness and division create a power vacuum, and its strength and unity pose a threat to all. Simms' narrative is very much in the style of histories penned in past eras by the likes of A. J. P. Taylor, Leopold von Ranke, and Henry Kissinger, in which leaders pursue great-power rivalries through subtle diplomatic schemes and brutal military tactics. Less sure-footed is the analysis of leaders' deeper motivations and of the sweeping changes in domestic politics and society that transformed Europe over that time. Yet the many insights and engaging anecdotes make this a fine read.

The People's Car: A Global History of the Volkswagen Beetle
BY BERNHARD RIEGER. Harvard University Press, 2013, 416 pp. $28.95.

The Volkswagen Beetle is one of the enduring and iconic products of the past century, but it has meant different things to different people in different places and times. In telling its story, Rieger starts with Hitler's ambition to create an inexpensive and functional "people's car." The job was turned over to Ferdinand Porsche, who produced the cute "bug" design the car has featured ever since. War production superseded civilian priorities, however, and the Beetle was delayed until after World War II, when British occupation authorities launched its production. In Germany, the car became a symbol of the country's middle-class economic miracle. In the United States, it became a symbol of counter-cultural resistance to middle-class consumerism. As its popularity waned in developed countries, it found a foothold in Mexico, where it stood for middle-class solidity and values in the face of economic turmoil. When Volkswagen introduced a redesigned Beetle in 2011, it offered young and old alike a chance to return to imagined traditions many of them never knew.

Political Conflict in Western Europe
BY HANSPETER KRIESI, EDGAR GRANDE, MARTIN DOLEZAL, MARC HELBLING, DOMINIC HOGLINGER, SWEN HUTTER, AND BRUNO WUEST. Cambridge University Press, 2012, 368 pp. $36.99.

The Politicization of Europe: Contesting the Constitution in the Mass Media
BY PAUL STATHAM AND HANS-JORG TRENZ. Routledge, 2012, 208 pp. $135.00 (paper, $44.95).

The political history of European countries is traditionally told in terms of a small number of significant, divisive issues. These issues emerged successively—first religion, then class, and more recently "postmaterialist" values, such as the environment—creating points of identification for voters and fault lines of conflict among political parties. They persist to this day and get layered on top of one another, defining the uniqueness of each country's politics.

Recently, some political scientists have claimed that a new and enduring cleavage has formed around globalization, a matter that has been of surprisingly little concern to European voters for the past half century. Those hurt by international economic integration now mobilize around issues such as immigration and European integration. A significant portion of them vote consistently for the radical right, helping explain its rise, while still backing the traditional welfare state. Kriesi, Grande, and their co-authors show that while globalization has grown more important as a motivation for voters, there may be less to this shift than meets the eye. Right-wing parties are actually surprisingly weak, fragmented, and local—something the authors attribute to the bias of parliamentary institutions against them. Moreover, the book shows that although a few ideological concerns, such as opposition to immigration and hostility to the EU, are widespread, no common economic or political program unites antiglobalizers.

Statham and Trenz's examination of public debates over an EU constitution notes a similar lack of cross-border mobilization. European voters remain resolutely national in their orientation and are heavily influenced by the institutional and ideological particularities of their home countries, making a broad shift in European politics or in the policies of the EU difficult to engineer.

Helmut Kohl: Eine politische Biographie (A political biography)
BY HANS-PETER SCHWARZ.
Deutsche Verlags-Anstalt, 2012, 1,506 pp. €34.99.

For most of his political career, Helmut Kohl was easy to underestimate. Yet political enemies did so at their peril. Ridiculed as a big, fat provincial with a suspiciously lightweight doctoral thesis, few clear ideals, and a ponderous speaking style, Kohl was nicknamed "the pear." He was a political insider who cultivated tight personal relationships and accumulated bitter enemies, clambering slowly up the greasy pole of German politics with few achievements of true distinction. On reaching the top, in the early 1980s, he turned in a mediocre first term as chancellor. That all changed when the Soviet Union began to collapse. Kohl focused on reunifying Germany, strengthening the EU, and establishing a diplomatic agreement with Moscow. In this mammoth biography, destined to become the standard work on Kohl for some time to come, Schwarz portrays him as shrewd in politics but a bit naive on substantive matters. This combination still has relevance for contemporary European politics. For example, Kohl supported the establishment of the euro but did not fully consider its potential long-term effects. Europe is still living with the consequences.

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Western Hemisphere

Richard Feinberg

Economic Mobility and the Rise of the Latin American Middle Class
BY FRANCISCO H. G. FERREIRA, JULIAN MESSINA, JAMELE RIGOLINI, LUIS-FELIPE LÓPEZ-CALVA, MARIA ANA LUGO, AND RENOS VAKIS. World Bank, 2013, 182 pp. Free online.

In this important, encouraging study, a group of World Bank economists smashes the long-standing image of Latin America as a stagnant region marred by a yawning rich-poor divide. The authors' statistics demonstrate that during the last two decades, economic growth and effective programs to redistribute wealth have ushered in a large middle class, defined as people living in households with annual incomes higher than $14,600. One hundred and fifty million Latin Americans now fit that definition, an impressive 30 percent of the region's population, according to the authors. In addition, another 38 percent now belong to a lower-middle class that is less educated but no longer poor. Thus, according to these statistics, Latin America is no longer predominantly poor: a hard-won transformation of historic proportions. Not content to simply report this remarkable progress, the study's authors worry that this new middle class will join the region's rich elites in neglecting those still struggling to improve their lots. They urge Latin American governments to draft a more sustainable social contract by making equality of opportunity an explicit goal, strengthening their social security systems, and raising tax revenues to finance high-quality public education and health services.

The Soviet Cuban Missile Crisis: Castro, Mikoyan, Kennedy, Khrushchev, and the Missiles of November
BY SERGO A. MIKOYAN. Stanford University Press, 2012, 616 pp. $65.00.

Soviet Premier Nikita Khrushchev "repaid me for my opposition [to placing Soviet nuclear-armed missiles in Cuba] by sending me to tell [Fidel] Castro that the missiles had to be removed," the seasoned Soviet diplomat Anastas Mikoyan once quipped. This marvelous volume by Mikoyan's late son, appearing only now in English, recounts the tough negotiations that followed between his father, the Cuban leadership, and the Kennedy administration over the weapons, the presence of which Washington had at one point been utterly unaware of and which risked making Cuba a nuclear power. The older Mikoyan, a remarkably skillful survivor in Bolshevik circles, came to perceive the youthful Cuban leadership (notably Castro and Che Guevara) as too emotional and idealistic, and he told them point-blank, "We see your readiness to die beautifully, but we believe that it isn't worth dying beautifully." The book's appendix features 50 documents carefully selected from Mikoyan's personal papers and Soviet archives that offer many fascinating glimpses of some leading personalities of the Cold War era.

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Farewell, Fred Voodoo: A Letter From Haiti BY AMY WILENTZ. Simon & Schuster, 2013, 352 pp. $27.00.

The veteran Haiti observer Wilentz returned to Haiti after the devastating earthquake that struck the country in January 2010 to further ponder the causes of Haiti's deep poverty and dysfunctional governments and to witness the massive reconstruction. Wilentz is at her best when describing the more exotic aspects of Haitian culture: its pagan religions, zombies, and werewolves. She also brilliantly savages the vulgar, exploitative journalism of some of her Western colleagues. Wilentz very much wants to blame foreign interventions for Haiti's misery, but she provides plenty of evidence that distrust, defensiveness, and duplicity on the part of Haitians themselves bear much of the blame. Her jaundiced assessments of the international development community suffer from her search for the selfless, the purely authentic, and the deeply knowledgeable—high bars that few can clear. Her heroes are the altruistic medical professionals who rushed to assist the injured and the sick in the aftermath of the quake. Yet as harsh as it might sound, modern medicine has also indirectly added to Haitian suffering: improvements in health care allowed more people to live longer but were disconnected from the kind of comprehensive family planning that might have tempered the country's population growth in the decades before the disaster. As Wilentz herself notes, the population of Port-au-Prince soared from under 150,000 in 1950 to over two million by 2010, a demographic explosion the country could barely have contended with even in normal times, much less after hundreds of thousands of people flooded squalid relief camps following the earthquake.

Oblivion: A Memoir BY HÉCTOR ABAD. TRANSLATED BY ANNE McLEAN AND ROSALIND HARVEY. Farrar, Straus and Giroux, 2012, 272 pp. $26.00 (paper, $15.00).

The author's father, a distinguished physician and prominent human rights activist, was gunned down in 1987 in Medellín, Colombia, by one of the right-wing death squads that operated with impunity in the country at that time. This poetic memoir is many things at once: a sensitive son's recollections of growing up in a loving family; a proud homage to his generous father, who was devoted to his relatives, his many medical students, and his wider community and whom Abad describes as "Christian in religion, Marxist in economics, and liberal in politics"; and a moving contemplation of human tragedy and memory ("an opaque, cracked mirror"). Abad denounces the extreme political violence of the period, when military intelligence operatives joined with rich landowners to systematically eliminate "terrorists." Struggling against the human instinct for vengeance, he instead affirms his father's adherence to nonviolence and rational discourse. In the spirit of tolerance, Abad notes that on learning of his father's martrydom, the Colombian senator Álvaro Uribe, a conservative hard-liner who later became the country's president, graciously asked his colleagues to observe a minute of silence in honor of the fallen patriot.

Eastern Europe and Former Soviet Republics

Robert Legvold

Russia: A Long View
BY YEGOR GAIDAR. TRANSLATED BY ANTONINA W. BOUIS. MIT Press, 2012, 600 pp. $39.95.

Not many countries have produced an academic-cum-official who could or would write a book like this. Gaidar, a scholar-economist, was the architect of Russian economic reform in the Yeltsin era. He completed this genuine magnum opus in 2005, four years before his death, at age 53. In it, he traces all of economic history back to the late Stone Age and places the long path of Russian economic development in this extraordinary context. The analysis is remarkably sharp and succinct, devoid of self-exculpation, and informed by an astonishing array of Russian and Western sources. Readers with little knowledge of Russia will be stimulated by the book's ambitious scope, and students of Russian history will be treated to a fresh perspective on critical issues, including an arresting explanation of the collapse of the Soviet Union. The last third of the book focuses on the road ahead, including the challenges Russia (and all other developed economies) will have to grapple with: shifting demographics, education, health care, social welfare, and defense spending. In a brief epilogue, Gaidar praises the steady economic hand of Vladimir Putin's government but urges a less heavy political hand going forward.

Mr. Putin: Operative in the Kremlin
BY FIONA HILL AND CLIFFORD G. GADDY. Brookings Institution Press, 2013, 400 pp. $29.95.

Of the many biographies of Vladimir Putin that have appeared in recent years, this one is the most useful, particularly to foreign-policy makers, many of whom must work with a crude or muddled understanding of what makes the Russian leader tick. Hill and Gaddy paint him as a composite of many identities, including a statist bent on refurbishing Russian powers, a careful student and clever manipulator of Russian history, a "survivalist" preoccupied with girding for the worst-case eventuality, and an intelligence "case worker" who recruits, controls, and uses people. These identities melded well enough to satisfy the post-1990s angst of Russia's political elite and paved the way for "Russia, Inc.," a shrouded, imperious court that has commandeered the state's formal institutions and which Putin leads as a combination of chief executive and tsar. But, the authors argue, Putin's vision is endangered: his identities no longer mesh but instead clash, and Russia's emerging new middle class has come to disdain what he has wrought. Something has to give.

Russia and the West From Alexander to Putin: Honor in International Relations
BY ANDREI P. TSYGANKOV. Cambridge University Press, 2012, 325 pp. $99.00.

Tsygankov believes that the Russian sense of honor is the key to understanding

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the long history of the country's relations with the West. By honor, he means both the virtues Russians see in their society and the respect others accord their country. Whether Russia cooperates with, defends itself from, or takes the offensive against the West is determined by Russia's sense of honor, along with the degree of security that Russians feel, and not by Russia's quest for power or the structure of the international system. Tsygankov examines this dynamic in different phases of Russian history, from the post-Napoleonic period to today. He takes international relations theory seriously and places himself squarely in the constructivist camp. His exegesis applies well to the Putin era. But for the larger picture, theory's demand for tidiness forces a certain amount of cutting and splicing of history.

Plutopia: Nuclear Families, Atomic Cities, and the Great Soviet and American Plutonium Disasters
BY KATE BROWN. Oxford University Press, 2013, 416 pp. $27.95.

One of the Cold War's more striking perversities never made it to public view. To hold their own in the nuclear arms race, both the United States and the Soviet Union built sealed-off cities to harvest plutonium. Brown focuses on the history of the two pioneering examples: the Richland community in eastern Washington State and Ozersk, in the southern Urals. The former was built early in World War II; the latter, toward the war's end. Brown is a good writer, and she describes with precision the construction of the two sites (a difficult process in the U.S. case, an unbelievably horrid one in the Russian case), the hazardous occupations undertaken by their inhabitants, and the consciously contrived bubbles of socioeconomic inequality both places became. Over their multidecade existence, each pumped into their environs a volume of radioactive isotopes twice as large as that released by the Chernobyl disaster. They ravaged the health of their workers under the half-knowing eyes of superiors. But both cities offered their residents privileges they would not have enjoyed in any normal setting: tellingly, when given a choice to stay or leave, most preferred to stay and keep their material abundance at the expense of worrying about their health and that of their families.

Balkan Smoke: Tobacco and the Making of Modern Bulgaria
BY MARY C. NEUBURGER. Cornell University Press, 2012, 320 pp. $39.95.

Smoking may seem a curious route into Bulgarian history, but given the centrality of tobacco to the country's commerce, examining it allows Neuburger to add depth to many facets of Bulgarian social and political life as the country moved from the tutelage of the Ottoman Empire to autonomy after 1877, through the crosscurrents of World War I and its revolutionary aftermath, and to the genocide of World War II and then the confused heavy hand of communist overlordship. Neuburger wisely does not pretend that the subject provides anything other than an oblique perspective from which to view the shifting mores of Bulgarian society. But she notes that in nearly every historical period, there has been a desultory tension between abstinence campaigns and the irresistible role of tobacco in leisure and consumption. And throughout, tobacco remained conspicuously important to the Bulgarian economy, especially during the communist era: from 1966 until 1988, Bulgaria was usually the world's biggest exporter of cigarettes. Neuberger concludes by reflecting on Bulgarians' ongoing devotion to cigarettes amid the postsocialist collapse of the industry.

The Kosova Liberation Army: Underground War to Balkan Insurgency, 1948–2001
BY JAMES PETTIFER. Columbia University Press, 2012, 320 pp. $50.00.

In considering the bloody and stupifyingly complicated last chapter of the Yugoslav wars, most outsiders view the Kosovo Liberation Army with only slightly less distaste than they do the former Serbian leader Slobodan Milosevic. Pettifer sees matters differently. For him, the KLA represents the culmination of the long-simmering Albanian struggle against Serbian dominion, which stretches back to pre–World War I royalist Yugoslavia and was reignited during the reign of Marshal Tito. In the tangle of contesting factions in the conflict over Kosovo, Pettifer's heart is with the KLA and the Albanian nationalists who allied with it. In fine detail, Pettifer describes the group's halting formation, the role played by Albanian exiles in Geneva and Zurich, the support from the government of Albania, the first guerrilla operations in Kosovo, the violent retaliation by the Yugoslav military, the confused and vacillating entry of the United States and the United Kingdom into the conflict, and the 1999 war. It is a quintessentially Balkan story of unassuaged nationalist grievances, strategic blunders all around (none greater than Milosevic's), and great powers in pursuit of agendas only loosely related to the problem at hand.

Middle East

John Waterbury

On Saudi Arabia: Its People, Past, Religion, Fault Lines—and Future
BY KAREN ELLIOTT HOUSE. Knopf, 2012, 320 pp. $28.95 (paper, $16.95).

This book, by a former correspondent for *The Wall Street Journal*, is deeply pessimistic about the future of the Saudi kingdom. A coming generational shift in the monarchy—from a son of the dynasty's founder to one of his grandsons—might lay bare the structural fissures of Saudi society. These consist of a youth bulge (60 percent of Saudis are under the age of 20), a myopic and conservative leadership, the outsourcing of some economic and social policies to religious reactionaries, and the elite's willful ignorance of the significant sector of Saudi society that lives in poverty. House anticipates an explosion of some sort: she wagers that if one occurs, it will have been young people and women who lit the fuse. But it is hard to reconcile the vision of a polity bursting at its seams with House's emphasis on the inveterate passivity, somnolence, and conformity of "average" Saudis. In extensive interviews, she does reveal broad-based grievances.

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But it is not clear that compared with past frustrations, these feelings are any less susceptible to appeasement by the state's habitual doling out of generous financial rewards to its citizens.

Tested by Zion: The Bush Administration and the Israeli-Palestinian Conflict
BY ELLIOTT ABRAMS. Cambridge University Press, 2013, 347 pp. $29.99.

From his experience as a senior adviser on the U.S. National Security Council, Abrams provides an intelligent and astonishingly detailed chronicle of the George W. Bush administration's failed attempts at solving the Israeli-Palestinian conflict. He is an eloquent and unapologetic advocate for Israel and for American neoconservatism. Indeed, the voice of Ariel Sharon, the prime minister of Israel from 2001 to 2006, comes through more forcefully than any other of Abrams' protagonists. But Abrams' use of evidence is selective, and there are exasperating blind spots. The most interesting plot point involves the so-called road map to peace drafted by the Bush administration. The road map was tightly sequenced: first, an end to terrorist attacks against Israel; then, talks about the contours of a final settlement. Abrams reveals that if the second phase were ever reached, Israeli leaders would likely have knowingly offered far less than the Palestinian Authority could have accepted. So as far as Israel was concerned, the game was all about the first phase, whose completion Israel probably would have followed with a unilateral withdrawal from some parts of the West Bank.

The Second Arab Awakening: Revolution, Democracy, and the Islamist Challenge From Tunis to Damascus
BY ADEED DAWISHA. Norton, 2013, 288 pp. $26.95.

Dawisha is an experienced and prolific historian of the contemporary Arab world. It is puzzling, therefore, that his insights do not come through clearly in this chronicle of the recent Arab uprisings and their aftermath. His ideas are not based on firsthand observations, so any distinctive value added must come from interpretation. But aside from a brief salute to Hannah Arendt's theory of revolution, there is no attempt to situate the uprisings in a comparative context. Dawisha does rehearse the history of the first Arab "awakening," which came in the 1950s and 1960s and led to the nationalist-populist military regimes in Egypt, Iraq, Syria, and other countries in the region. These were uniformly authoritarian, bent on liberating their societies from colonialism but consistently hostile to democratic practice. They yielded the deep slumber of Libya under Muammar al-Qaddafi, Syria under the Assad family, Egypt under Hosni Mubarak, and Tunisia under Zine el-Abidine Ben Ali, from which Arab society is now awakening. Curiously, Dawisha makes no reference to George Antonius, whose classic 1938 book, *The Arab Awakening*, analyzed an even earlier transformation that took place in the region, during the late nineteenth and early twentieth centuries. Nonetheless, this is a useful and simple primer on the uprisings, stronger on their aftermath than on their causes.

War Comes to Garmser: Thirty Years of Conflict on the Afghan Frontier
BY CARTER MALKASIAN. Oxford University Press, 2013, 352 pp. $27.95.

The title of this fine book implies that there may have been a time without war in Garmser, a district in southern Afghanistan. But aside from an interlude in the 1970s, when the U.S.-funded Helmand Valley Development Project brought irrigation to the district (along with Peace Corps volunteers and a flood of bureaucratic acronyms), the story of Garmser is one of tension and violence with a high toll in human life. In the aftermath of the U.S. invasion of Afghanistan, Malkasian spent two years in Garmser as a State Department political officer. His rich, shrewdly constructed history of the area shows how tribal elders used the United States and the Taliban as resources in their own turf battles, which often revolved around access to irrigated land. Al Qaeda and Pakistan's intelligence service are irrelevant to this tale, which is unusual for a book about Afghanistan. Malkasian's gem of a concluding chapter—which analyzes the opportunities the United States missed during the early years of the war and offers specific recommendations on what could and should be done now—is best appreciated after a close reading of the preceding chapters. The effort will be amply repaid.

Shiism and Politics in the Middle East
BY LAURENCE LOUER. Columbia University Press, 2012, 176 pp. $24.95.

Louer takes a close look inside Shiite international networks and the efforts to control them, a struggle that pits the official clergy against a group that Louer calls the *effendi*: lay leaders without religious credentials who nonetheless exercise influence in Shiite communities (Iraq's prime minister, Nouri al-Maliki, is a good example). She notes that substantial resources are at stake, since *marjas*—religious leaders whose teachings and conduct are considered "worthy of emulation"—can claim one-fifth of a follower's net income as a form of quasi-obligatory charity. The struggle is not only between the *effendi* and the clergy but also between both of those groups and the central Shiite authority represented by Iran's supreme leader, Grand Ayatollah Ali Khamenei, the successor to Ayatollah Ruhollah Khomeini. Louer focuses on how these dynamics play out in Bahrain, Iraq, Lebanon, and Kuwait. In her view, the trend is toward greater "domestification" of Shiite movements, at the expense of the central authority in Iran. Khomeini's doctrine of *wilayat al-faqih*, or the rule of the Islamic jurist, has been accepted more in appearance than in reality.

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Asia and Pacific

Andrew J. Nathan

A Death in the Lucky Holiday Hotel: Murder, Money, and an Epic Power Struggle in China
BY PIN HO AND WENGUANG HUANG. PublicAffairs, 2013, 352 pp. $27.99.

Recent power struggles in China have generated torrents of leaks and rumors. The sources, always obscure, apparently seek to influence the course of the struggles by outing secrets and maligning reputations. In the case detailed in this book, they succeeded. Anonymous e-mails and cell-phone calls alerted a number of reporters, including Ho (an exiled veteran journalist who published the Chinese-language version of *The Tiananmen Papers*, the English-language version of which I co-edited), to a split between Bo Xilai, the Communist Party boss of Chongqing, and his subordinate, the local police chief. Reporters soon uncovered a cesspool of scandals involving Bo, his wife, and others in high places, which involved the abuse of power, corruption, sexual misbehavior, and, most famously, the murder of a British businessman in a Chongqing hotel. The scandal caused a delay in the power transition from Hu Jintao to Xi Jinping last fall, and it still casts a shadow over the Xi administration. Although Ho acknowledges that many details of the tale are unverifiable for now, he has probably gotten the story largely right. The book provides remarkable insight into the vicious culture of court politics in today's China.

Changing Worlds: Vietnam's Transition From Cold War to Globalization
BY DAVID W. P. ELLIOTT. Oxford University Press, 2012, 432 pp. $49.95.

Faced with the end of the Cold War and the intensification of globalization, the Vietnamese leadership began to rethink their country's foreign policy in the 1990s. Elliott's interviews and his close reading of texts show that the country's revolutionary true believers went through a contentious process to justify a more pragmatic approach. They ultimately came to terms with Vietnam's need, as a small country, to cooperate with its neighbors, and so Vietnam joined the Association of Southeast Asian Nations. The leaders decided that U.S. power was sufficiently balanced by other big powers to prevent Washington from dominating the region, and they began to cooperate with the United States. They decided that they could defend socialism and still join the World Trade Organization, so long as they were able to raise domestic living standards. These compromises were paradoxical: the leaders could protect Vietnam's autonomy only by opening up the country's economy. As a result, Vietnam is deeply interdependent with the rest of the world but still authoritarian and suspicious of foreign actors.

The Cage: The Fight for Sri Lanka and the Last Days of the Tamil Tigers
BY GORDON WEISS. Bellevue Literary Press, 2012, 376 pp. $19.95.

In early 2009, during the closing weeks of the Sri Lankan civil war, the Tamil Tigers—a militant group that had waged a bloody, decades-long campaign to win independence for Sri Lanka's Tamil minority—herded 300,000 Tamil civilians into a shrinking redoubt on the island's northeast coast, forcing them to serve as human shields against the encroaching Sri Lankan army. The army responded by bombing and shelling tent encampments and makeshift schools and hospitals while denying the refugees access to food, water, and medical supplies. Terrorized families were smashed by artillery if they stayed in this cage and shot by one side or the other if they tried to escape. The general outlines of this story are familiar. But Weiss, a UN official in Colombo at the time, provides harrowing details, as well as insight into the decades of brutal conflict that brought the two sides to the point where they were willing to commit war crimes. The perpetrators on one side are dead. Those on the other continue to govern Sri Lanka and to resist all attempts to demand accountability.

Beyond Shangri-la: America and Tibet's Move Into the Twenty-first Century
BY JOHN KENNETH KNAUS. Duke University Press, 2012, 376 pp. $94.95 (paper, $25.95).

Here, for the first time, is the full story of Washington's official relationship with Tibet, from the first encounter between a U.S. diplomat and the then Dalai Lama in 1908 to the recent pattern of congressional and White House pressure on Beijing to engage in dialogue with the Tibetan leadership in exile. Throughout this century of contact, the Americans assured the Tibetans of their friendship and support but never abandoned the position that Tibet is part of China. In the 1950s and early 1960s, the United States provided limited training and assistance to Tibetan guerillas resisting Chinese rule, a program in which Knaus participated as a CIA officer. But this aid was sufficient only to harass, not expel, Chinese forces. What ultimately drives U.S. policy on Tibet seems to be a fascination with Tibetan culture and religion rather than any strategic calculus. Although Knaus celebrates U.S. support for Tibet, his narrative shows how inconsistent attention, confused thinking, and intermittent diplomatic freelancing on Washington's part have produced a murky policy that has served the Tibetan cause poorly.

Aging, Economic Growth, and Old-Age Security in Asia
EDITED BY DONGHYUN PARK, SANG-HYOP LEE, AND ANDREW MASON. Asian Development Bank and Edward Elgar Publishing, 2012, 295 pp. $120.00.

It is well known that the populations of China and Japan are aging. But this book shows that the same is true throughout Asia—except in the poorest countries, where life expectancies are low. According to the book's authors, by 2050, the portion of Asians over age 65 will range from 14 percent, in India, to 38 percent, in Japan. In the United States, the figure will be about 20 percent. Even more remarkable is the speed of the transition: in many countries, the over-65 share of the population will double or even triple

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over the course of four decades. To deal with the implications of this change for economic growth and social dependency, the authors recommend that governments establish or strengthen pension and retirement saving systems. They suggest that some governments should stop trying to limit population growth and instead encourage more births. Retirement ages should be raised. Countries with relatively young populations, such as India and the Philippines, should take advantage of the productivity of younger cohorts by increasing educational opportunities and labor-market flexibility. Finally, they argue, loosened restrictions on labor migration would benefit everyone.

F: Hu Feng's Prison Years
BY MEI ZHI. TRANSLATED BY GREGOR BENTON. Verso, 2013, 332 pp. $26.95.

Shattered Families, Broken Dreams: Little-Known Episodes From the History of the Persecution of Chinese Revolutionaries in Stalin's Gulag
BY SIN-LIN. TRANSLATED BY STEVEN I. LEVINE. MerwinAsia, 2012, 475 pp. $75.00 (paper, $35.00).

If anyone needs a reminder of the inscrutability and mercilessness of the Stalin and Mao regimes, these books can help. Hu Feng was a distinguished Marxist literary critic whom Mao made a prime target of a major campaign to intimidate independent thinkers in the early years of the Chinese communist regime. Hu spent 24 years in various forms of imprisonment. For much of the time, he was accompanied by his wife, Mei Zhi—an unusual privilege probably attributable to Hu's age and fragile health. In her memoir, she recounts their experiences. Hu was constantly pressured to "reform his worldview" to match the new political campaigns Mao launched. As the couple's situation became more and more hopeless, Hu stopped insisting on his innocence and lost his sanity. He outlived Mao but passed away a few years after his release from prison, at the age of 82.

Sin-Lin tells the Tolstoyan tale of her struggle to understand her parents, who continued to love each other despite their forced separation, remarriage to other spouses, and political estrangement. They were young Chinese revolutionaries studying in Moscow when Sin-Lin was born. She grew up in a Communist Party boarding school in the Soviet Union and traveled to her parents' homeland for the first time only as a teenager, several years after her mother had gone back but before her father, who spent years in Stalin's gulag before returning to China. The way the Chinese regime abused both of her parents after they came back showed the party's insecurity about anyone whose loyalties might be divided, even though it was the party that had sent her parents to the Soviet Union to study in the first place. The book includes documents that Sin-Lin gathered much later from Soviet archives about a few of the many Chinese revolutionaries who disappeared into Stalin's gulag as a result of paranoid power struggles within the communist movement.

Africa

Nicolas van de Walle

Poor Numbers: How We Are Misled by African Development Statistics and What to Do About It
BY MORTEN JERVEN. Cornell University Press, 2013, 176 pp. $65.00 (paper, $22.95).

Jerven demonstrates with devastating clarity that African governments produce imprecise economic statistics that should not be trusted. Based on his firsthand observations of a number of bureaucracies that issue economic statistics, Jerven paints a disturbing portrait of how sub-Saharan African governments devise their national accounts. Entire subsectors of some economies are not recorded, and others are assumed not to have changed in several decades. Data often reflect assumptions about production and consumption patterns that are questionable or even demonstrably false. As a result, Jerven claims, national statistics about economic production might be off by as much as 50 percent, probably in the direction of underestimating economic activity. In 2010, when Ghana corrected the methods it used to calculate its GDP, the figure grew by 70 percent. Jerven concludes with a number of useful suggestions for how to remedy the situation, such as encouraging national statistical offices, which tend to rely on occasional efforts to collect lots of information, to instead take more frequent, smaller surveys. But readers who use African statistics will still be left deeply unsettled.

Multi-ethnic Coalitions in Africa: Business Financing of Opposition Election Campaigns
BY LEONARDO R. ARRIOLA. Cambridge University Press, 2012, 324 pp. $90.00.

Business, Politics, and the State in Africa: Challenging the Orthodoxies on Growth and Transformation
BY TIM KELSALL. Zed Books, 2013, 200 pp. $116.95.

Policymakers and students of African political economy have long wondered why more African governments have not done a better job of promoting investment by the private sector and what factors differentiate the minority of countries that have enjoyed good relations with business. Both of these books shed light on this question by emphasizing political processes rather than ideology or economic policy.

Using a variety of methods, Arriola carefully and persuasively argues that democratic rule and accountability become more likely when the main ethnic groups that control the government in a country are not the same as those that control finance. This form of political pluralism allows for checks and balances to prevent the abuse of power. Arriola makes his case through inventive data analysis and thorough case studies of Cameroon and Kenya. The idea that combining independent capitalist actors with political pluralism can lead to a more disciplined state and expand economic opportunities goes back at least to James Madison. But Arriola has found new and arresting ways to apply that argument to contemporary Africa.

Kelsall's book takes a different view, and reflects a growing disillusion among international donors with democratization and governance reforms in Africa. Questioning the link between capitalism and political pluralism, he argues that economic growth results from "visionary" political leaders who enjoy highly centralized control of the state apparatus and can shape long-term plans for economic development. The book includes four case studies of countries (Ethiopia, Ghana, Rwanda, and Tanzania) in which Kelsall claims growth has resulted from those conditions. But he says little about how to encourage visionary leadership or why so few states have it. A corollary to Kelsall's main argument is the idea that public corruption need not eliminate private-sector growth—a valuable insight, to be sure. But the book's more central claims are undermined by the anecdotal and sparse nature of the evidence Kelsall cites.

The Postcolonial State in Africa: Fifty Years of Independence, 1960–2010
BY CRAWFORD YOUNG. University of Wisconsin Press, 2012, 488 pp. $31.95.

In this political history of Africa since the 1950s, Young reviews the political science literature on such important issues as the legacy of colonialism, the reasons why African states turned autocratic soon after independence, and the best ways to assess their performance since then. Unlike similar books, Young's considers the areas north and south of the Sahara, focusing on the political and diplomatic links between the two, as well as their common history. The book is at its strongest when addressing the relationship between ethnic identity, nationalism, and the state, a subject on which Young has produced seminal analyses for several decades. With remarkable command of the evidence and a keen grasp of theoretical nuance, Young shows how colonialism and the patterns of modernization it wrought dramatically altered cultural identities and created cleavages between groups, which still shape domestic conflict throughout the region, sometimes with devastating consequences.

Mau Mau's Children: The Making of Kenya's Postcolonial Elite
BY DAVID P. SANDGREN. University of Wisconsin Press, 2012, 184 pp. $26.95.

As a young college graduate, Sandgren taught in a rural Kenyan school for boys from 1963 to 1967 before returning to the United States for graduate school and a career in academia. Most of his pupils had been affected in some way by the Mau Mau rebellion against the British colonizers in the 1950s. Following Kenya's independence in 1963, many became part of the country's first relatively well-educated indigenous elite and rose to prominence in government and business. Sandgren returned to Kenya in 1995 and interviewed 75 of the 90 or so students he had taught three decades earlier. This book is the fascinating result. Interesting details abound, including the fact that many of his students started their careers in the public sector but later left for the much higher wages available in business. Although Kenya was mired in a recession in the mid-1990s and some of his former students were nervous about the country's future, they had generally ensured solid educational opportunities for their children, many of whom took university educations for granted.

Letters to the Editor

GENERAL RELATIVITY

To the Editor:

Aluf Benn's thoughtful review of my book *Fortress Israel* ("Israel's Warlords," March/April 2013) fails to grasp one essential aspect of the history of the Arab-Israeli conflict. Benn paints the Israel Defense Forces' dominance of Israeli politics as immutable, arguing that since only the military can offer the government timely solutions in a crisis, Israel "inevitably" relies on the use of force. But it is a misperception of history to suggest that Israel has had no alternatives to military solutions. Diplomacy and negotiation have not been tactical responses to urgent contingencies. They have been part of a long-term strategy to avoid conflict.

In fact, many Israeli leaders, including generals, have sought to build a rival institution to balance the military's power. After Israel's disastrous losses and poor judgments in the 1973 Yom Kippur War, the Mossad (Israel's intelligence agency) and the Foreign Ministry were brought in as a "red team" to counter the military's assessments of the outside world. Israeli prime ministers have tried to set up a viable National Security Council with connections to policy planners at think tanks to balance the military. These efforts have mostly come up short, but under strong prime ministers, especially those who have sprung from the army, the military has been forced to give way to diplomacy, as it did under Yitzhak Rabin and Ehud Barak.

Benn states that I accuse Barak of disingenuous trickery in his diplomacy with Syria and the Palestinians. There is no such accusation in my book. Most unfairly, he also writes that I mention the obstinacy of the Arab leadership "only in passing." Although *Fortress Israel* is a biography of the Israeli leadership, it includes a detailed rendering of Arab motivations and failures in every major encounter throughout the text.

Benn concludes that some Israeli military leaders have opposed wars and militarism. But he fails to help readers understand how peace can once again become Israel's main national strategy. He leaves them with the cold conclusion that the generals are unlikely to "retreat to their bunkers anytime soon." Where does that leave Israel?

PATRICK TYLER
Washington, D.C.

GOOD SERVICE

To the Editor:

In his interview with *Foreign Affairs* ("Generation Kill," March/April 2013), Stanley McChrystal, the retired U.S. general, argued that the United States should compel all Americans to serve their country through some form of national service. Conscription, however, is not the answer to the United States' challenges at home or abroad. Instead, Washington should build on the success of existing voluntary programs, such as the Peace Corps, to give more Americans the opportunity to advance U.S. foreign policy objectives by serving abroad.

The idea that compulsory service will strengthen society and boost civic engagement isn't new. Around the turn of the twentieth century, the American philosopher William James suggested that youth be drafted by states to perform manual labor. In the process, James argued, they would "get the childishness knocked out of them, and . . . come back into society with healthier sympathies and soberer ideas."

The reality, however, is far more complex. In order to forge the kinds of social ties that McChrystal envisions, national service has to provide prolonged, intensive opportunities for citizens of diverse backgrounds to interact. The U.S. draft during World War II strengthened social ties because it thrust millions of Americans together for a long period of time in a high-stakes environment. Minor tasks, such as rebuilding infrastructure, simply do not provide the same intensity of experience. Short of another theater war, it will be extremely difficult to replicate this sociological effect.

The country's objectives would be far better served by expanding opportunities for national service through voluntary programs, particularly those that expose Americans to the outside world. The Peace Corps was established by President John F. Kennedy to make Americans return from abroad "better able to assume the responsibilities of American citizenship and with greater understanding of our global responsibilities." The value of the Peace Corps has only increased over time, and expanding the program would be a sound investment in U.S. public diplomacy.

Currently, the Peace Corps provides fewer than 10,000 positions total despite receiving thousands of applications every year. The United States can and should encourage more Americans to serve their country both at home and abroad. But targeted investments in voluntary programs would advance U.S. interests far more effectively than compulsory national service.

SCOTT MOORE
Giorgio Ruffolo Doctoral Research Fellow, Belfer Center for Science and International Affairs, Harvard Kennedy School

TOUGH TAIWAN

To the Editor:

In "Beyond the Pivot" (March/April 2013), Kevin Rudd suggests that Washington and Beijing should work toward establishing a new Shanghai Communiqué in order to improve and solidify their relationship. He argues that some analysts' concerns that this type of dialogue could "reopen the contentious issue of Taiwan" are not valid because Taiwan's relationship with the mainland is currently very good. Indeed, cross-strait relations have improved significantly since Taiwanese President Ma Ying-jeou took office in 2008. However, this does not mean that Taipei is willing to make concessions on issues of political autonomy and sovereignty. Taiwan will continue to safeguard its sovereignty, territorial integrity, and national dignity.

The United States should be careful not to compromise Taiwan's position while it builds its relationship with mainland China. Not only would this defy the United States' commitment to democracy; it would also call into question Washington's promise to be a security partner for Asian countries other than China—damaging the United States' reputation and influence and endangering its strategic position in the region.

ANDREW J. C. KAO
Director General, Taipei Economic and Cultural Office in New York

FOR THE RECORD

In "America's Misguided Approach to Social Welfare" (January/February 2013), a sentence stated that in 2010, the top ten percent of U.S. households received 20 percent of U.S. entitlement spending. In fact, they received ten percent.

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Foreign Affairs Focus: An Online Video Series

Currently Featured: Civilians in Conflict With Sarah Holewinski

In December, Sarah Holewinski—executive director of Center for Civilians in Conflict—spoke to *Foreign Affairs*. Watch the full video at ForeignAffairs.com. Highlights:

ON WAR:
War is hell. Bad things happen. Always have, since humans emerged. But the interesting thing is that according to the laws of war, a warring party can just walk away from civilian harm that they've created.

ON VICTIMS:
The United States didn't compensate victims for a good number of years in Iraq and Afghanistan. We've interviewed civilians who had been harmed in those years, and they were incredibly angry. When they actually got help, they would say, "Now I know that America didn't mean to harm my family, because they came back and they did something."

ON IMPROVEMENTS:
The United States created a civilian-casualty tracking cell in Afghanistan. This sounds very technical, and it is, but warring parties throughout history haven't actually taken record of the kinds of civilian harm that they are causing. Once you actually jot it down, then you can get better and better.

ON THE ROAD AHEAD:
It's going to take a lot of committed individuals at the Pentagon to say, "This is something we need to focus on, we're going to put resources behind it, and we're going to get it done now." Because once we're out of Afghanistan, the focus is going to be off of this.

Visit foreignaffairs.com/video for the full interview and other videos in the series—including Stanley McChrystal on U.S. military strategy, Christopher Swift on drone strikes, Fareed Zakaria on U.S. competitiveness, and many more.

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