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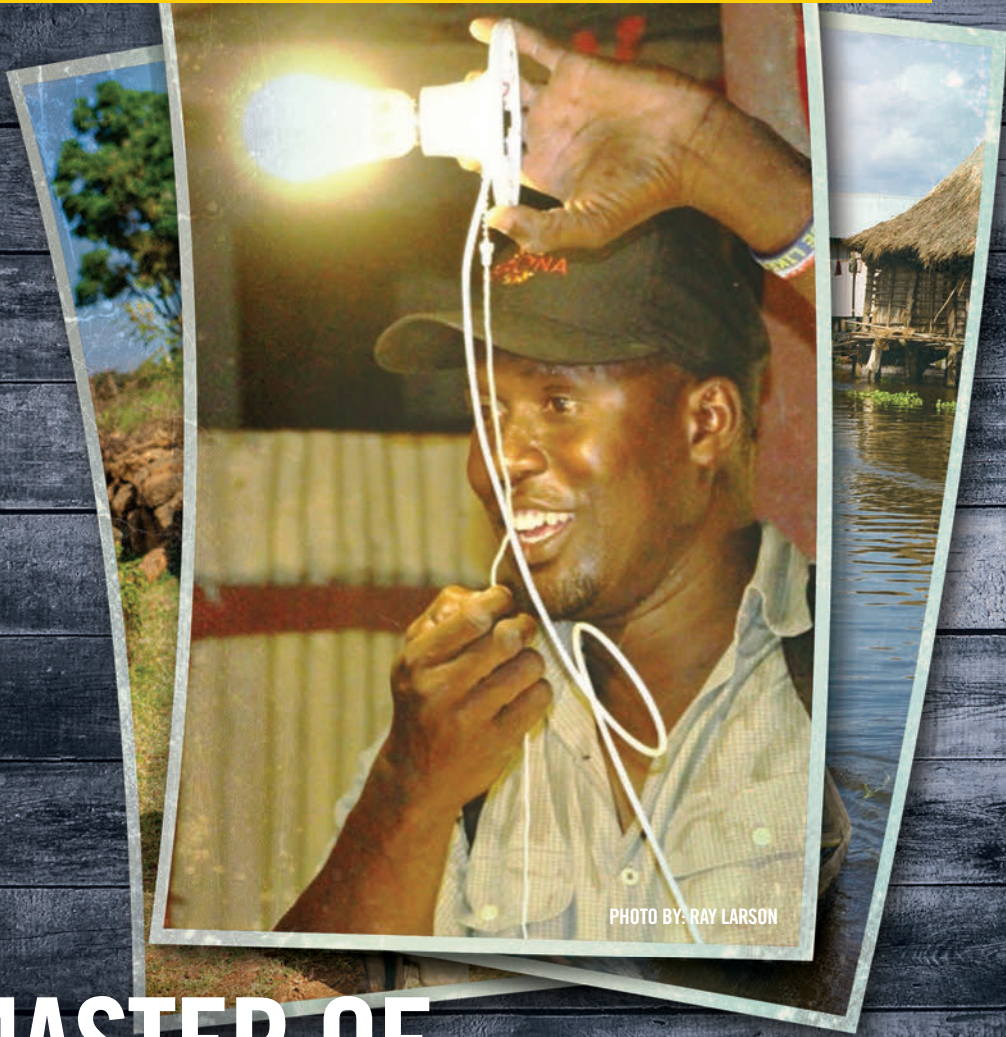


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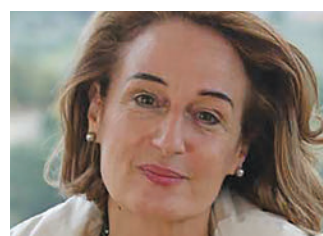
PHILIP BREEDLOVE spent the final years of the Cold War as a young U.S. Air Force officer in West Germany. Over the quarter century that followed, he rose through the ranks, capping a glittering career by becoming the commander of U.S. European Command and supreme allied commander of NATO for Europe—positions he held from 2013 through May of this year. In "NATO's Next Act" (page 96), Breedlove makes the case for why a resurgent Russia requires a strong response from the Western alliance.



Over the past two decades, **FRANK-WALTER STEINMEIER** has served in many of the most important roles in the German government. Under Chancellor Gerhard Schröder, Steinmeier oversaw Germany's intelligence services and then helped push through Schröder's economic reforms while serving as his chief of staff. When Angela Merkel became chancellor in 2005, she chose Steinmeier as her first foreign minister. After a stint as leader of the Social Democrats in opposition, Steinmeier returned as foreign minister in 2013. In "Germany's New Global Role" (page 106), he explains how his country sees its growing presence on the world stage.



Educated at Smith College, the University of Florence, and Columbia University, **VICTORIA DE GRAZIA** joined Columbia's history department in 1994. Her scholarship has included topics as varied as gender and Italian fascism, and her most recent book, the much-heralded *Irresistible Empire*, investigates how U.S. consumer-oriented capitalism spread throughout Europe. In "Having It All" (page 187), de Grazia reviews Frank Trentmann's pioneering history of consumption from the fifteenth century to the present.



THE STRUGGLE FOR ISRAEL

It's common knowledge that the Middle East is in turmoil these days and that there are major tensions between the United States and one of its crucial allies in the region, Israel. Less commonly understood are the profound ways in which Israel itself is changing.

In important respects, the country no longer resembles the image many Westerners still picture—the liberal Zionist state of David Ben-Gurion, Abba Eban, Golda Meir, and Yitzhak Rabin. The socialist Ashkenazi elite that used to dominate Israel's politics has long since fractured and faded away. Sephardic Jews, Soviet immigrants, settlers, the religious right, secular Jews, and Arab Israelis now vie for influence. In foreign policy, meanwhile, what Israel stands for, and who it stands with, is also in play.

To scout this new landscape, we've turned to some of Israel's leading politicians and observers. What emerges is a picture of a country enjoying a rare moment of relative peace with most of its neighbors, even as it experiences intensifying conflicts at home.

Leading off the package are interviews with two of Israel's most powerful women: Ayelet Shaked, the current justice minister, and Tzipi Livni, a former justice minister and former foreign minister. Their contrasting visions starkly illuminate the country's current political divide.

Next, Aluf Benn, editor in chief of *Haaretz*, describes Israel's transformation through the story of Prime Minister Benjamin Netanyahu's long career. A moderate when circumstances required

it, Netanyahu now leads the most right-wing government in Israel's history, which Benn argues is allowing Netanyahu to realize his long-held dream: replacing Israel's old moderate and secular elite with a new hard-line and religious one.

Robert Danin, an American diplomatic veteran of the now-moribund peace process, examines the new threats and often overlooked new opportunities facing Israel's foreign-policy makers. As'ad Ghanem of the University of Haifa explores the plight of Israel's Arab citizens, who are enjoying unprecedented material gains even as they face unprecedented threats to their political rights. And Amos Harel, one of Israel's leading defense analysts, describes the challenges facing the country's vaunted military, including the recent wave of "lone wolf" knife attacks.

Finally, Martin Kramer of Shalem College offers a vigorous dissent, noting that in many respects, Israel is better off today than ever before. What has changed, in his view, is less Israel than the attitudes of others, including Washington—whose fecklessness and withdrawal from the Middle East represent a real but manageable problem for the Jewish state.

Israelis disagreeing with one another is hardly new. But the bitterness of today's fights underscores the depth of the changes and choices facing the country.

—Jonathan Tepperman, *Managing Editor*



Israel—at least the largely secular and progressive version of Israel that once captured the world’s imagination—is over.

—Aluf Benn

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Ministering Justice

A Conversation With Ayelet Shaked

Ayelet Shaked is a relative newcomer to Israeli politics. Shaked, 40, served as Benjamin Netanyahu's office manager before breaking with the prime minister and joining Naftali Bennett's Jewish Home party in 2012 and then winning election to the Knesset in 2013. Following the 2015 election, Shaked was named Israel's minister of justice. Since then, she has courted controversy with a number of moves that critics call undemocratic, such as promoting a bill that would highlight which nongovernmental organizations (NGOs) get a majority of their funding from foreign governments. Shaked, who worked as a software engineer before entering politics, recently spoke to *Foreign Affairs'* managing editor, Jonathan Tepperman, in Tel Aviv.

You've been justice minister for a year now. Which accomplishments you are most proud of?

One is the nomination of judges. I've already nominated 100 judges [to fill vacant posts], which is a lot. Also, we are doing a lot of things to reform the legal system, to alleviate court backlogs, to reform the bankruptcy law. I'm trying to find any business regulations that I can relax.

The transparency bill is also important, but it hasn't passed yet. And the terror

bill, which the Knesset has tried to pass for more than five years without success, will pass next month [in June]. It's also very important; it gives the Shabak [Israel's internal security service, also known as the Shin Bet] and the police new tools to fight terror.

What kind of tools?

For example, it allows them, in specific circumstances, to prohibit a suspect from seeing a lawyer for 21 days. Things like that.

What's it like to be a leader of the Jewish Home—a political party known as the main voice for religious settlers—as a secular woman and Tel Aviv resident?

The fact that I was elected to my post in an open party primary shows that Jewish Home voters are very open and very liberal. I see my party as a bridge between the Orthodox and the secular. We believe that we should all live together and respect one another.

You currently serve under Prime Minister Netanyahu. You started your career working for him directly but then broke with him in 2012 and left Likud. What are the main differences today between you and Netanyahu, you and Likud?

The main difference between the Jewish Home and Likud, apart from religion and ideology, is that we object to a Palestinian state, while Likud, and the prime minister, supported one.

To return to your earlier question, I'm also trying to promote Arab society in Israel, by creating new courts in Arab cities and appointing a woman as a *qadi* [an Islamic judge, with jurisdiction over family law] for the first time.

This interview has been edited and condensed.



Shaked in Tel Aviv, February 2015

Are these reforms meant to address the inequalities between Arab Israelis and Jewish Israelis?

There's no inequality. According to the law, everyone is equal. But of course, we need to invest more in some Arab towns. And the government just passed a big plan to do so.

So the problem is not one of legal equality but one of resources?

Yes, sometimes. But the government is now fixing that. And here in my ministry, nine percent of employees are Arabs or Druze.

To return to politics, there are rumors that the prime minister is trying to create a big new party of the right, which would absorb all the smaller right-wing parties. What do you think of that?

It's not something we've really talked about. I don't think it's realistic. But we'd never rule anything out.

Some critics, including U.S. Ambassador Dan Shapiro, have criticized the NGO transparency bill as an attempt to muzzle dissent. Why is the bill necessary? Why publicly identify those NGOs that get more than half of their support from foreign governments?

The amount of attention this bill is getting is absurd. There are so many other important things that we are working on, yet for some reason, this bill gets so much attention. It's just a transparency bill. If an NGO gets more than half of its money from a foreign government, it's the right of the citizens of Israel to know that. Why? Because some countries have found a way to interfere in the internal affairs of Israel—not through diplomacy but

by funding specific NGOs that serve their ideology.

By “some countries,” do you mean the United States and Europe?

Mainly Europe. And by the way, it's not that [such funding] won't be allowed. It's allowed in a democracy. But I think that the public has the right to know about it.

Critics say that the real point of the law is to shame these organizations by making their members wear special badges in the Knesset and by imposing a public label that would damage these groups' legitimacy.

First of all, the badges aren't part of the law. But by the way, every lobbyist in the Knesset needs to wear a badge. So even if the badges were in the law, it wouldn't be bad.

Second, it's not about shaming. It's about the right to know. That's all.

Do you feel that foreign governments should not be funding NGOs in Israel?

I think that foreign governments should not fund political NGOs in Israel. I don't think that the U.S. administration would like it if Israel, for example, were to fund an NGO in the United States that sued American soldiers for their service in Afghanistan.

Do you see the NGOs that would be targeted by the law, such as Breaking the Silence, as foreign agents or threats to Israel?

They are not threatening Israel. Our democracy is very strong; we can handle them. But I think they are doing damage to Israel outside the country, by spreading a lot of lies and distorting the picture. Sometimes if you only tell half a truth,

it's a lie. They take one specific case and generalize it, depict it as if it shows the way all soldiers behave. They're doing it on university campuses in the United States. It's causing damage to Israel.

Would the legislation also affect groups on the right?

I haven't checked which NGOs would be affected by the law.

There will be four to five vacancies on the Supreme Court next year, and you'll get to help nominate the replacements. You've been quite critical of the court in the past and have tried to limit its ability to overrule decisions by the executive or the Knesset. What role do you think a supreme court should play in a democratic society?

A very important role, of course. The court's job is to resolve disputes and prevent the state from carrying out actions that are illegal. I criticize the court when it intervenes in matters of policy, not in matters of law.

Do you have a problem in principle with judicial review based on interpretation of Israel's Basic Laws?

No, I don't. But I think that [the court] should use that power very, very rarely, and only in very prominent cases where there's been a violation of the law—not on questions of policy.

In the United States, the Supreme Court uses what it calls "the political question doctrine" to avoid getting involved in questions it deems largely political.

Does a similar doctrine exist here?

Yes, but the reality is different. The U.S. Supreme Court is also activist. But U.S. Supreme Court justices are selected by politicians. In Israel, it's done by com-



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mittee. I'm the head of the committee, but there are three Supreme Court justices on it as well, and we can't make a selection without them. So the Supreme Court judges have a lot of influence over the selection of their replacements.

Would you like to change that?

There are a few things we cannot do in this coalition. I'm not going to bang my head against a wall. But we do favor a law that would give judges the formal power to cancel a law. This power was never given to them by law; they just took it. But the law would also give the Knesset the power to override the court, like Parliament can in Canada, for example.

But in Canada, Parliament can only overrule the court on constitutional issues if it specifies that it is doing so notwithstanding the court's opposition. That acts as a check on Parliament.

What we're talking about in Israel is requiring a big majority, more than 60 percent of the Knesset, to do so.

Aren't you worried this could give rise to a tyranny of the majority? Because the purpose of an unelected judiciary is to act as a check on the legislature to prevent pure majoritarian rule.

I think that if you require a vote [to overrule the court] to pass by 65 percent, then I don't see the Knesset using this power very often. It will be a rare occasion.

Freedom House recently downgraded Israel's standing due to what it claims are new restrictions on the freedom of the press. And last week, the deputy chief of staff of the IDF said that the current climate of intolerance, violence, and

self-destruction reminds him of Germany in the 1930s. How do you interpret such criticisms?

You have to distinguish between the two. First of all, Yair Golan [the IDF's deputy chief of staff] retracted what he said and said there is no room for such a comparison.

Regarding [Freedom House], I want to hear facts, not talk about atmosphere. Israel is one of the strongest democracies in the world, with close to absolute freedom of expression. You can see that by looking at our social networks.

So you don't worry that any of the measures you've mentioned could chill freedom of expression here?

No, and they're not intended to.

What about the new bill that would allow the suspension of Knesset members for making anti-Zionist statements?

I don't like this law, and I don't support it. I don't think it's necessary. I only voted for it out of coalition discipline. But it's unnecessary. I think that Knesset members should say whatever they want. And by the way, no one will use this law.

You recently proposed extending Israeli civil law to settlements in the West Bank.

No. Don't believe all the things that you read in the newspapers.

Today in Israel, when a law is passed in the Knesset, the military authority in Judea and Samaria has discretion over how to apply it in the settlements. What I've proposed is that we set up a team that would be manned both by the Ministry of Justice and by the Ministry of Defense to immediately translate new laws into military regulations, rather than letting it happen sporadically.

You've made it clear in the past that you favor annexation of large parts of the West Bank—Area C, which is something like 61 percent of the territory. So it's not surprising that some of your critics have called this move a first step toward annexation. Is there anything to that?

No. We aren't talking about annexing Judea and Samaria. The proposal has been criticized because, like you, no one understands what it's saying. Politicians on the left want to use it to score political points. No one has bothered to understand what I really meant.

Speaking of annexation, what timeline do you envisage?

It's not realistic today. What I'm saying is that the two-state solution will not happen in the near future. The gaps between the Palestinians and the Israelis are much too big to bridge. Arafat, Abu Mazen [Mahmoud Abbas], Olmert, Barak—they all tried to do so many times, and they failed. And the Gaza withdrawal showed the Israeli public that even though we withdrew down to the last inch, we only got terror. You know, Einstein defined insanity as when you do the same thing over and over again and expect different results.

That's why today the majority of Israelis don't think it's realistic to establish a Palestinian state. So it's not that I think we can annex Area C today, but I think it is something that we need to talk about, to put on the table.

You make it sound like your objection to the two-state solution is more practical than ideological.

It's just not realistic. All the countries around us are collapsing, and there is a huge battle in the Middle East between

the Shia and the Sunnis, and there are terror organizations all over. Israel really is like a villa in the jungle. And the situation in Judea and Samaria for the Palestinians—OK, it's not perfect, but it's OK. They are living their lives; they are selecting their leaders. The situation could be far worse than it is now.

Second, I do believe in the historic right of the Jewish people to the land of Israel.

So how do you see the relationship with the Palestinians evolving? Aren't you worried that as conditions continue to deteriorate, their anger will continue to grow?

I don't know if what you're saying is true. Israel-Palestinian security coordination is strong. I think that Israel and the international community need to invest in the economy of the Palestinians. Maybe this will help to weaken Hamas. I think if we are willing to push for prosperity and to invest in a real economy, and if the international community would not just transfer money but give the Palestinians independent energy and stronger industry, it could help.

I also support building a port for Gaza by building an island in the sea.

Tell me a bit more about the situation of Arab Israelis. Do you feel that there are major problems there that need to be addressed?

I think that the government is now doing the right things.

But a lot of damage was done by the last government, which raised the threshold of votes needed for a party to enter the Knesset.

I supported leaving the situation as it

was and not raising the threshold. That was unnecessary. But the goal was not to hurt the Arabs but rather to strengthen the government.

Whatever the intentions were, that rule, and the comments the prime minister made during the last election about Arabs being bused in droves to polling stations, created a lot of ill feeling among the Arab Israeli population. Are the moves you're making now an attempt to address that sense of alienation?

Many politicians said worse things than the prime minister did during the election. But we are doing what we're doing because we think it's the right thing to do.

How do you assess Israel's security today? Some people argue that Israel is more secure than it's ever been, because for the first time in its history, war with an organized Arab army is impossible. But others argue that the region is more dangerous than ever, because of the fragility of Israel's new Arab friends, because of the Shiite-Sunni divide, because of Iran, and because of ISIS. Which view is correct?

Both of them are correct. You are right: there is no threat that a big Arab army will invade Israel. But on the other hand, there are many other threats. First of all, of course, is Iran and its bomb. The agreement with Iran did two things. First, they will have a bomb in ten years. They will have a bomb. It's just a matter of a decision. In ten years, if they decide to have a bomb, they'll have one a few months later. This is a huge threat to Israel.

The other bad thing about this agreement is that it caused an arms race in the Middle East. The United States wants to give more arms to moderate

Sunni states. And part of the weapons embargo on Iran will be removed in five years. And [the Iranians] will now get a lot of money, so they will arm themselves.

Another threat is the nonconventional arms race. Saudi Arabia and Egypt now see that Iran will have a bomb in ten years. So they also want a bomb.

What about the broader international situation? Do you worry that Israel is becoming more isolated internationally, because of the BDS [Boycott, Divestment, and Sanctions] movement or because of the friction between the leadership here and that in Washington?

I believe that the U.S. administration— it doesn't matter which administration— will stand behind Israel in every bad situation. The administration will understand that Israel is its ally and the only democracy in the Middle East.

And I expect the American administration to fight the BDS movement on university campuses.

***The New York Times* reported a few weeks ago that tensions between Netanyahu and President Obama were now delaying the passage of a huge new aid bill the two countries are negotiating.**

I can only say that I hope they will resolve it.

Do you ever worry that Israel is too dependent on the United States?

The support of the United States is very important. But I'm not worried that someday we might need to get along without it. If that does happen, we will succeed. But I don't see it happening. I hope it won't. 🌍

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Anger and Hope

A Conversation With Tzipi Livni

Tzipi Livni has been called the most powerful woman in Israel since Golda Meir. Born to a prominent right-wing family, Livni spent several years working for the Mossad, Israel's foreign intelligence service, before entering politics. In the decades since, she has held eight different cabinet posts—including minister of justice and minister of foreign affairs—and undergone a dramatic ideological evolution. First elected to the Knesset as a member of Likud, in 2005 she joined Kadima, a new centrist party founded by then Prime Minister Ariel Sharon. A staunch supporter of the peace process, Livni created her own party, Hatnua, in 2012 and then joined forces with Labor to form the Zionist Union before the 2015 election. Now a leading member of the opposition, Livni recently spoke to *Foreign Affairs'* managing editor, Jonathan Tepperman, in Tel Aviv.

When you speak to Israelis today, you're apt to hear one of two competing narratives. According to the first, things are better than ever: the economy is thriving, most of Israel's enemies are in disarray, and the current government reflects the will of the people.

The other narrative is the complete opposite: the region is more dangerous than ever, Israel faces growing interna-

tional isolation, and the current government is steadily reducing civil liberties and freedoms. What's your version?

It's very clear that here in Israel there are now not only two different states of mind but also two different views about what Israel needs and what Israel is. And your view of reality depends on which of these two views of Israel you hold.

Does that mean Israel is now more polarized than ever before?

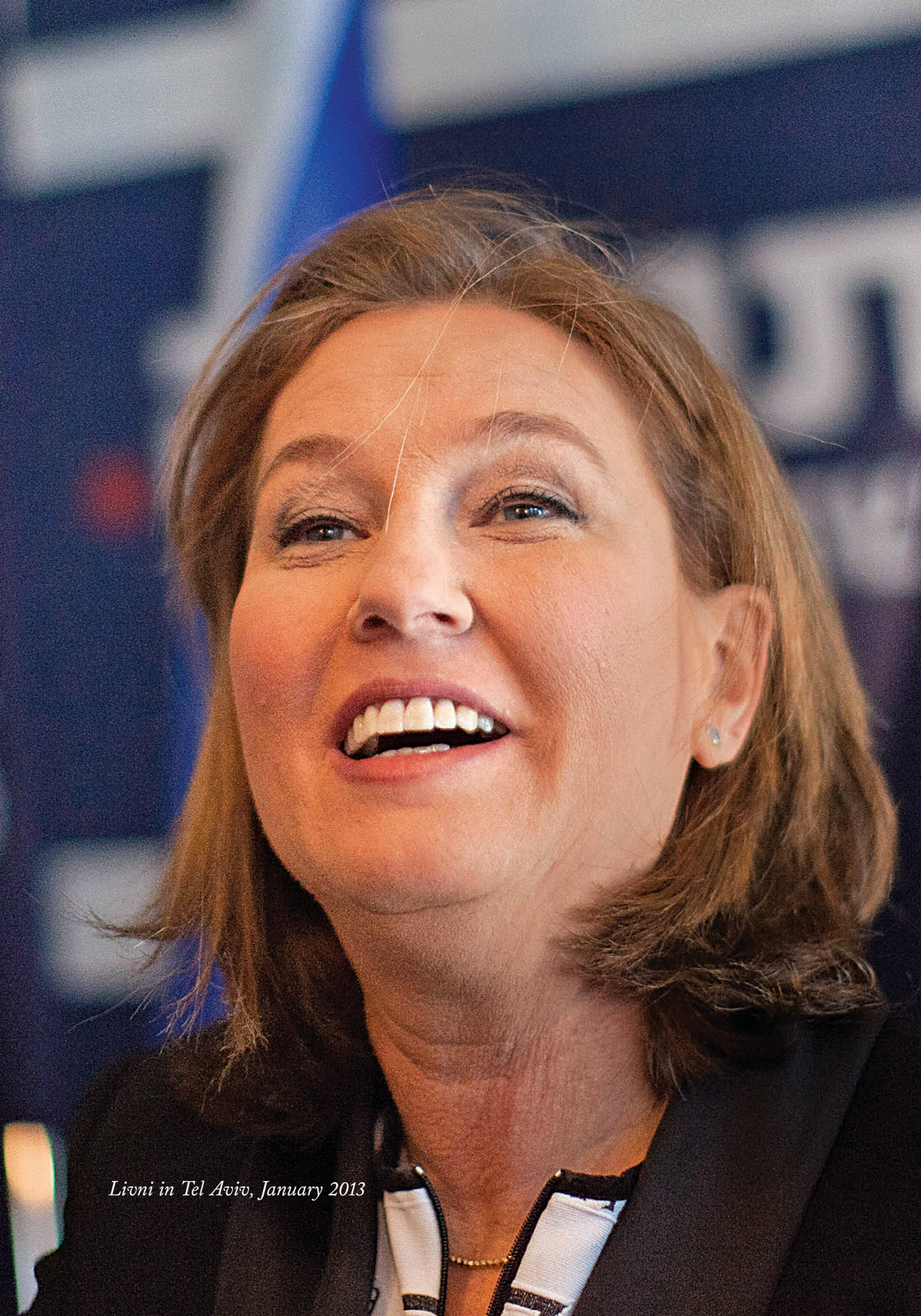
Yes, yes. It started before the last election, but the election crystallized the idea—quoting Netanyahu—that there's a gap between these two camps. He was right then. And the things that he and his government have done since then have made this gap grow wider. Those that are not in the government feel that what is happening is completely against our understanding of what Israel is, what its values are, what Judaism is, what democracy is.

Is Israeli democracy in decline?

We are fighting to keep Israel a democracy—not just in terms of its electoral system but also in terms of its values. A lot of those on the other side see democracy only as a question of who is the majority. This is why they are trying to weaken the role of the Supreme Court. And this is why Netanyahu wants to control the press.

In a democracy, you need to have a strong judicial system. You need freedom of speech, you need art, and you need a free press. And all these things are under threat right now. We in the opposition need to fight for these values. We need to push the idea that democracy is a matter of values, and not just the rule of the majority.

This interview has been edited and condensed.



Livni in Tel Aviv, January 2013

Do you think you can win this battle? The right has controlled Israeli politics for years now. The current government is the most hard-line in Israel's history. Netanyahu seems to have very few plausible challengers. Given all of that, plus the country's changing demographics, plus the public's frustration with the peace process, plus the chaos in the region, can the left or the center really make a comeback?

The good thing about having a government like this one is that it makes everything very clear. The more bluntly they speak, the easier it becomes to rally the support of our own camp.

What we need to do now is to go to our base and say, "Listen, it's now clear what this government represents. If they continue, they will take us to the point of no return in the Israeli-Palestinian conflict. They will change the nature of Israeli democracy."

And is your own camp big enough to win an election?

It's 50-50—for now. You are right: Israel is changing in terms of demographics. But when [the government] says that the majority rules, they're wrong, because Ayelet Shaked and Naftali Bennett represent a minority in Israel. Their ideology of a Greater Israel, and an Israel that's more Jewish than it is democratic—that's a minority opinion here. What we need to do is to find and speak to those who are our natural partners.

But success also requires leadership among the various parties in the center and on the left, right? They must be prepared to join forces.

It requires that voters understand that in order to win, they need to work with

one leader, one party, and not spread their votes all over. But as time passes, people's despair is growing. So it depends on us. What I'm trying to do right now is to say, let's put on the table our basic vision for the future of the state of Israel. Not a specific platform, but a general view of what needs to be done about peace and security. And let's speak about the nature of Israel as a Jewish democratic state. It's not more Jewish and less democratic, or more democratic and less Jewish. And of course we have to share our views about the economy and society.

We need to put it all on the table, not only for voters but also for the heads of the different parties. They also need to make a choice. Everybody needs to take a side.

Ever since 1996, Netanyahu has said openly that the way to create a permanent right-wing government in Israel is to change the elite—not just by working through politics but by creating new think tanks, changing the media, changing culture, all to replace the old secular Ashkenazi elite with a new, more Sephardic, religious, right-wing one. So said the Ashkenazi leader.

Well, that is an irony. But is he succeeding?

For me, this is not a problem. I know how [the right] feels, OK? I was there. I was born to parents who were not accepted by the establishment in the days when the state of Israel was created. And those Jews who came from Arab states were also not accepted. They felt that the establishment patronized them. I can understand that feeling.

So giving more attention to Sephardim and everything—it's more than OK. It's

necessary. But what Likud is doing now is just what was once done to them.

And it's even more problematic than that, because they're trying to delegitimize those that criticize the government. Netanyahu is using the resentment of those who felt patronized by the old elite to shut the mouths of those who criticize him.

Is there a significant difference between what he wants and what his allies, like Bennett and Shaked and Regev, want?

For Netanyahu, it's not about ideology. It's about using the feelings of those who were patronized in the past to say, "OK, now we are taking over, and you will get our support."

For the others you mentioned, it is about ideology. So they and Netanyahu have different reasons for doing what they do, but the outcome is the same.

For us, it's about keeping Israel a Jewish democratic state. The only way to do that is by dividing the ancient land of Israel into two different states. If we fail to do so, or if we annex the territories, we will face a clash between Israel as a democracy and Israel as a Jewish state.

A vast majority of Israelis want to keep Israel a democracy. If you asked them, they might say that they are right wing. But if the next question was, would you support a two-state solution with security? they would say yes.

A moment ago, you spoke about the need to convince voters of the stakes involved in choosing you instead of the right. Yet as we speak, the leader of your own coalition is in talks with the prime minister about forming a national unity government. What do you think of this? My responsibility is to ask, how can I

serve my ideology and my voters? So the question is, will joining the government allow us to implement our vision, or serve Netanyahu's vision?

To answer that, you have to ask, if we joined the government, would it be to create a true unity government or just a broader coalition for Netanyahu? Those are two different things. Unity governments are based on an understanding among the major parties that there are things we can agree on and implement together. This is not what Netanyahu is proposing. He is talking about a broader coalition to help him and his natural partners.

So I'm against it, because it would betray our voters and what I believe in.

Would you be prepared to leave the party if it joined the government?

I have my own party.

Then would you leave the Zionist Union, your coalition with Labor?

I hope that will not happen, but yes. What's the use of being in politics if it means serving someone else's vision?

You asked me before about Netanyahu, whether he thinks like the Jewish Home or he thinks like us. I'd answer by quoting that old line: "Tell me who your friends are, and I'll tell you who you are."

Let's return to the peace process. You've spoken in the past about the dangers of not doing anything to address the situation. But given the disarray on the Palestinian side, and the fact that Abu Mazen's [Mahmoud Abbas'] days are numbered, what can be done?

Israel needs to decide which road we want to take; we need to decide on our destination. If the destination is Greater

Israel, it doesn't matter whether there's a partner on the other side.

But if your destination is a secure Israel that is Jewish and democratic, then it can't be on the entire land. That is our GPS setting. To get there, we'd prefer to have an agreement with the Palestinians, because that is the way to create a secure border, a demilitarized Palestinian state, and an end to the conflict. Because you can't end the conflict without their consent.

And if we cannot end the conflict tomorrow morning, let's at least start moving toward our goal. That means not doing things that take you in the opposite direction. Netanyahu says his destination is two states for two peoples. But he's going in the other direction.

So what do you propose?

First, we need to win the trust of the international community and the Palestinians by saying this is where we want to go. Not for you, not as a favor to the United States. But because it's in our own interests.

Second, we would stop doing things that serve the different vision for the state of Israel.

Such as?

Stop expanding settlements, especially those outside the fence that are not going to be part of Israel. Then let's change the atmosphere. Let's show we're serious. Let's give the Palestinians the right to build in Area C. Let's see whether these and other confidence-building measures can create enough trust to relaunch negotiations.

And then in the negotiations, we need to find out what they really want. Are they willing to end the conflict

and take steps that would serve their interests as well?

And we need to work completely differently with the international community. We have lost their trust by speaking about two states but then acting in ways that serve the vision of a Greater Israel.

There are certain interests that nobody in Israel would give up. Security: a Palestinian state should be demilitarized. And the major settlement blocs would become part of Israel.

Is there anyone to negotiate with on the other side, or does this have to wait until a new Palestinian leader replaces Abu Mazen?

I'd prefer to work with them directly. But if they are not willing, let's start working also with the international community.

Do you see unilateral separation as a last option, if necessary?

As long as it moves us toward a two-state solution. We can act with the Palestinians or without the Palestinians. But unilateralism would not bring us to the end of the conflict.

How worried are you about Israel's growing isolation?

First, I want to make it clear that nothing I suggested would be done to appease the international community. Anything we do has to be in our own interests. But by not acting in our own interests, we are affecting our relations with the international community. And Israel's security is based on its relationship with the U.S. It's not a question whether [the Americans] like us or love us; it's about our security. And it's not just about

money or weapons. They also give us legitimacy to act against terror; they have their veto on the Security Council.

Somebody recently said to me that for the United States, Israel is becoming just another state. That's not good news. Netanyahu and others in the government say that foreign attitudes have nothing to do with what we do but are based on who we are: the world is anti-Semitic, so they will hate us no matter what we do.

What I would say is that there is anti-Semitism in the world, but not everybody is anti-Semitic. And instead of giving the anti-Semites an opportunity to further isolate us, let's isolate them. Let's build a wall between them and those that are criticizing Israel because of its policies or because they don't understand us.

Do you worry that Israel is too dependent on the United States?

The United States is the anchor. I also believe that we should have better relations with Europe; we need to work with everybody. But the United States is the anchor.

Looking at all the recent changes in Israel's region, do you see other opportunities, as well as threats? For example, relations with the Sunni monarchies have never been better. And the Arab Peace Initiative is still on the table. Is that worth exploring?

Yes. The original idea behind Israel was to take the Jewish people out of a ghetto and create a sovereign, independent state. So Israel shouldn't be a new ghetto, a big ghetto in the Middle East.

There are opportunities here. We and the Sunni Arab states share an

understanding. We share the same view of extreme Islamists, of terrorist organizations, of Iran.

But the glass ceiling that's constraining relations between Israel and the Arab Sunni world is the Israeli-Palestinian conflict.

So our strategy should be a dual strategy: On the one hand, we should act against the extremists, against Hamas. But on the other, we need to help those that are willing to work with us by making all those gestures I mentioned earlier. I have had discussions with Arab League representatives about this. I asked, "Is this a take-it-or-leave-it deal?" And they said, "It's negotiable." I said, "Great. Should I negotiate with you?" And they said, "No. Negotiate with the Palestinians." So in the end, it's all connected.

You sound surprisingly optimistic, given what's happening here and in your neighborhood.

I'm not optimistic, but without hope, you can't survive in this swamp called politics.

I once heard a story about a Western doctor working in Africa who worked 24/7 with victims of terrible atrocities. Someone asked him, "Where do you find the strength to keep doing this night and day?" "Two words," he said, "anger and hope."

I have both. 🌍

The End of the Old Israel

How Netanyahu Has Transformed the Nation

Aluf Benn

Israel—at least the largely secular and progressive version of Israel that once captured the world’s imagination—is over. Although that Israel was always in some ways a fantasy, the myth was at least grounded in reality. Today that reality has changed, and the country that has replaced it is profoundly different from the one its founders imagined almost 70 years ago. Since the last elections, in March 2015, a number of slow-moving trends have accelerated dramatically. Should they continue, they could soon render the country unrecognizable.

Already, the transformation has been dramatic. Israel’s current leaders—headed by Prime Minister Benjamin Netanyahu, who metamorphosed after the election from a risk-averse conservative into a right-wing radical—see democracy as synonymous with unchecked majority rule and have no patience for restraints such as judicial review or the protection of minorities. In their view, Israel is a Jewish state and a democratic state—in that order. Only Jews should enjoy full rights, while gentiles should be treated with suspicion. Extreme as it sounds, this belief is now widely held: a Pew

public opinion survey published in March found that 79 percent of Jewish Israelis supported “preferential treatment” for Jews—a thinly veiled euphemism for discrimination against non-Jews.

Meanwhile, the two-state solution to the conflict with the Palestinians has been taken off the table, and Israel is steadily making its occupation of East Jerusalem and the West Bank permanent. Human rights groups and dissidents who dare criticize the occupation and expose its abuses are denounced by officials, and the government has sought to pass new laws restricting their activities. Arab-Jewish relations within the country have hit a low point, and Israel’s society is breaking down into its constituent tribes.

Netanyahu thrives on such tribalism, which serves his lifelong goal of replacing Israel’s traditional elite with one more in tune with his philosophy. The origins of all these changes predate the current prime minister, however. To truly understand them, one must look much further back in Israel’s history: to the country’s founding, in 1948.

THE OLD MAN AND THE NEW JEW

Modern Israel was created by a group of secular socialists led by David Ben-Gurion, who would become the state’s first prime minister. “The Old Man,” as he was known, sought to create a homeland for a new type of Jew: a warrior-pioneer who would plow the land with a gun on his back and then read poetry around a bonfire when the battle was won. (This “new Jew” was mythologized, most memorably, by Paul Newman in the film *Exodus*.) Although a civilian, Ben-Gurion was a martial leader. He oversaw the fledgling state’s

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victory in its War of Independence against Israel's Arab neighbors and the Palestinians, most of whom were then exiled. And when the war was over, the Old Man oversaw the creation of the Israel Defense Forces (IDF), which he designed to serve as (among other things) the new country's main tool for turning its polyglot Jewish immigrants into Hebrew-speaking citizens.

Ben-Gurion was a leftist but not a liberal. Following independence, he put Israel's remaining Arab residents under martial law (a condition that lasted until 1966) and expropriated much of their land, which he gave to Jewish communities. His party, Mapai (the forerunner of Labor), controlled the economy and the distribution of jobs. Ben-Gurion and his cohort were almost all Ashkenazi (of eastern European origin), and they discriminated against the Sephardic Jews (known in Israel as the Mizrahim), who came from Arab states such as Iraq, Morocco, Tunisia, and Yemen. Ben-Gurion also failed to appreciate the power of religion, which he believed would wither away when confronted with secular modernity. He therefore allowed the Orthodox to preserve their educational autonomy under the new state—thereby ensuring and underwriting the creation of future generations of religious voters.

For all Ben-Gurion's flaws, his achievements were enormous and should not be underestimated: he created one of the most developed states in the postcolonial world, with a world-class military, including a nuclear deterrent, and top scientific and technological institutions. His reliance on the IDF as a melting pot also worked well, effectively assimilating great numbers of new

Israelis. This reliance on the military—along with its battlefield victories in 1948, 1956, and 1967—helped cement the centrality of the IDF in Israeli society. To this day, serving in the military's more prestigious units is the surest way to get ahead in the country. The army has supplied many of the nation's top leaders, from Yitzhak Rabin and Ezer Weizman to Ehud Barak and Ariel Sharon, and every chief of staff or intelligence head instantly becomes an unofficial candidate for high office on retirement.

The first major challenge to Ben-Gurion's idea of Israel arrived on Yom Kippur in 1973, when Egypt and Syria launched a surprise attack that managed to catch the IDF unawares. Although Israel ultimately won the war, it suffered heavy losses, and the massive intelligence failure traumatized the nation. Like the United Kingdom after World War I, Israel emerged technically victorious but shorn of its sense of invincibility.

Less than four years later, Menachem Begin—the founder of Israel's right wing—capitalized on this unhappiness and on Sephardic grievances to hand Labor its first-ever defeat at the polls. Taking power at the head of a new coalition called Likud (Unity), Begin forged an alliance with Israel's religious parties, which felt more at home with a Sabbath-observing conservative. To sweeten the deal, his government accelerated the building of Jewish settlements in the West Bank (which appealed to religious Zionists) and offered numerous concessions to the ultra-Orthodox, such as generous educational subsidies.

Begin was a conservative and nationalist. But the decades he'd spent in the opposition had taught him to

respect dissent and debate. As prime minister, therefore, he always defended judicial independence, and he refrained from purging Labor loyalists from the top echelons of the civil service and the IDF. As a consequence, his revolution, important though it was, was only a partial one. Under Begin's leadership, Israel's old left-wing elite lost its cabinet seats. But it preserved much of its influence, holding on to top positions in powerful institutions such as the media and academia. And the Supreme Court remained stocked with justices who, while officially nonpartisan, nevertheless represented a liberal worldview of human and civil rights.

BIBI'S BAPTISM

Although Likud has governed Israel for most of the years since then, the left's ongoing control over many other facets of life has given rise to a deep sense of resentment on the right. No one has felt that grievance more keenly than Netanyahu, who long dreamed of finishing Begin's incomplete revolution. "Bibi," as Netanyahu is known, first won the premiership in 1996, but it would take him decades to accomplish his goal.

Netanyahu's initial election came shortly after the assassination of Rabin. The years prior to Rabin's death had been dominated by the Oslo peace process between Israel and the Palestine Liberation Organization (PLO), and that same peace process would become the focus of his successor's first term as well.

Netanyahu opposed Oslo from the very beginning. Then as now, he saw Israel as a Jewish community besieged by hostile Arabs and Muslims who wanted to destroy it. He considered the Arab-Israeli conflict a perpetual fact of life

that could be managed but would never be resolved. The West—which, in his view, was anti-Semitic, indifferent, or both—couldn't be counted on to help, and so Israel's leaders were duty bound to prevent a second Holocaust through a combination of smart diplomacy and military prowess. And they couldn't afford to worry about what the rest of the world thought of them. Indeed, one of Netanyahu's main domestic selling points has always been his willingness to stand up to established powers, whether they take the form of the U.S. president or the UN General Assembly (where Netanyahu served as Israel's representative from 1984 to 1988 and first caught his nation's attention).

Netanyahu loves lecturing gentiles in his perfect English, and much of the Israeli public loves these performances. He may go overboard at times—as when, last October, he suggested that Adolf Hitler had gotten the idea to kill Europe's Jews from Amin al-Husseini, the grand mufti of Jerusalem during World War II. Historians of all stripes scoffed at the claim, but many ordinary Israelis were indifferent to its inaccuracy.

During his first term, Netanyahu connected his domestic and international agendas by blaming the leftism of Israel's old elite for the country's foreign policy mistakes. To prevent more missteps in the future, he borrowed a page from the U.S. conservative playbook and vowed to fight the groupthink at Israel's universities and on its editorial boards—a way of thinking that, he argued, had led the country to Oslo. In a 1996 interview with the *Haaretz* columnist Ari Shavit, Netanyahu complained about his delegitimization "by the nomenklatura of the old regime," adding that "the problem



Changing of the guard: Netanyahu at a memorial service for Ben-Gurion, November 2014

is that the intellectual structure of Israeli society is unbalanced.” He pledged to create new, more conservative institutions to rewrite the national narrative.

But Netanyahu’s political inexperience worked against him. His tenure was rocked by controversy, from his reckless provocations of the Palestinians and of Jordan to a scandal caused by his wife’s mistreatment of household employees. Israel’s old elites closed ranks, and, with the support of the Clinton administration, they forced Netanyahu into another deal with the Palestinian leader Yasir Arafat. The 1998 Wye River memorandum—the last formal agreement that Israel and the Palestinians have signed to this day—triggered early elections in May 1999, after several small, hard-right parties abandoned Netanyahu’s coalition in protest. Barak and the Labor Party emerged victorious.

Both Barak, a decorated former head of the IDF, and Sharon, who replaced Netanyahu at the helm of Likud and became prime minister himself in 2001, represented a return to the Ben-Gurion model of farmer turned soldier turned statesman. Their ascent thus restored the old order—at least temporarily—and made Netanyahu seem like a historical fluke.

A MODERATE MASK

But Netanyahu saw things differently, and he spent the next decade plotting his return to power. Following Sharon’s reelection in 2003, Netanyahu became finance minister, although he resigned on the eve of the August 2005 unilateral pullout from Gaza. When Sharon created a new centrist party, Kadima (Forward), shortly after the withdrawal, Netanyahu took over the remnants of Likud. But he lost the next election, in March 2006,

to Ehud Olmert, who had replaced the ailing Sharon as head of Kadima.

Olmert had pledged to follow through on his mentor's vision by withdrawing Israel from most of the West Bank. But in July, his plans were disrupted when he let Hezbollah draw him into a pointless and badly managed war in Lebanon. His subsequent effort to negotiate a comprehensive peace deal with the Palestinians, launched in Annapolis, Maryland, in late 2007, led nowhere. Meanwhile, Netanyahu's credibility and popularity were boosted that same year when Hamas, well armed with rockets, seized control of Gaza—just as he'd predicted. So when Olmert announced his resignation over corruption charges in the summer of 2008 (he ultimately went to jail earlier this year on different charges), Netanyahu was ready to pounce.

His revival was further aided by the sudden appearance in 2007 of what would become the most important of what Netanyahu called independent sources of thought. *Israel Hayom* (Israel Today) is a free daily newspaper owned by the American casino magnate Sheldon Adelson, and ever since its launch, it has provided Netanyahu with a loud and supportive media megaphone. By 2010, *Israel Hayom* had become the country's most-read weekday newspaper, printing 275,000 copies a day. And its front page has consistently read like Bibi's daily message: lauding his favorites, denouncing his rivals, boasting about Israel's achievements, and downplaying negative news.

With Olmert out of the picture, Netanyahu returned to office on March 31, 2009. Eager to prove that he was no longer the scandal-plagued

firebrand who'd been voted out of office a decade before, however, and fearing pressure from the new U.S. president, Barack Obama, he once again was forced to shelve his long-term plans for elite replacement. Instead of undermining his enemies, he shifted to the center, recruiting several retired Likud liberals to vouch for the "new Bibi" and join his cabinet, and forging a coalition with Labor under Barak, who stayed on as defense minister (a job he'd held under Olmert). Together, Netanyahu and Barak spent much of the next four years working on an ultimately unrealized plan to bomb Iran's nuclear facilities.

In June 2009, ten days after Obama's Cairo address, Netanyahu sought to reinforce his new centrist credentials by endorsing the idea of Palestinian statehood in a speech. True to form, however, the prime minister imposed a condition: the Palestinians would first have to recognize Israel as a Jewish state. Mahmoud Abbas, the Palestinian president, instantly rejected the idea. But the move enhanced Netanyahu's moderate credentials anyway.

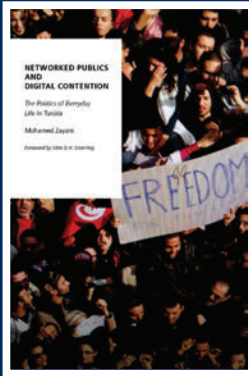
And it helped get Obama off his back—but not before the U.S. president convinced Netanyahu to accept a ten-month freeze on new residential construction in the West Bank settlements. The freeze was meaningless, however, since it didn't change the facts on the ground or facilitate serious peace talks. And soon after it expired, Republicans won control of the House of Representatives in the U.S. midterm election, creating a firewall against any further pressure from Washington. Obama soon lost interest in the thankless peace process. Although his rocky relationship with Netanyahu led to many juicy



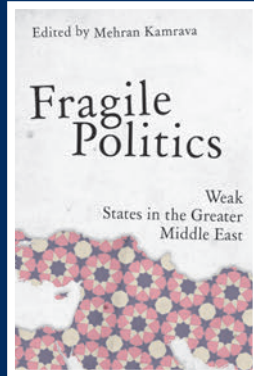
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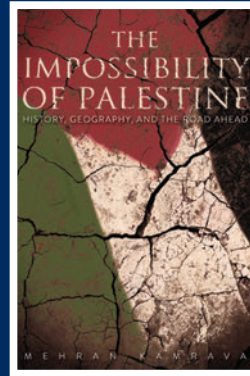
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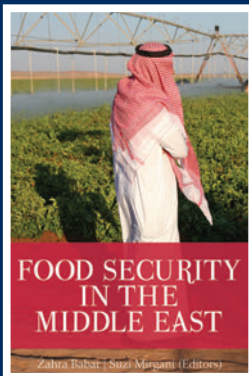
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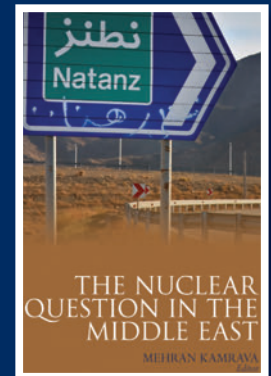
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newspaper and magazine stories, it had little effect on Israel's internal politics, since most Israelis also distrusted the U.S. president, and still do; a global poll released in December 2015 found that Obama had a lower favorability rating in Israel than almost anywhere else, with only Russians, Palestinians, and Pakistanis expressing greater disapproval.

Any remaining pressure on Netanyahu to pursue peace with the Palestinians evaporated soon after the Arab Spring erupted. Hosni Mubarak's regime in Egypt collapsed, threatening a cornerstone of Israel's security strategy; Syria sank into a bloody civil war; and a terrifying new nemesis, the Islamic State (also known as ISIS), appeared on the scene. These events unexpectedly bolstered Israel's position in several ways: Russia and the United States ultimately joined forces to eliminate most of Syria's chemical weapons, and the conservative governments of Jordan, Saudi Arabia, the United Arab Emirates, and (after the 2013 counterrevolution) Egypt strengthened their ties with Jerusalem (albeit unofficially in most cases). But the regional carnage and turmoil horrified Israeli voters, who told themselves: if this is what the Arabs are capable of doing to one another, imagine what they would do to us if we gave them the chance.

Nonetheless, peace and security played an uncharacteristically minor role in the next election, in January 2013. Instead, the race was dominated by social issues, including the rapidly rising costs of housing and food staples in Israel. Such concerns helped usher in a new class of freshman politicians, who replaced old-timers such as Barak. But none of them was able to overcome

the incumbent's experience and savvy, and after reengaging with his right-wing base and merging with another conservative party led by former Foreign Minister Avigdor Lieberman, Netanyahu won the election.

In the summer of 2014, following one last push for peace with Abbas (this time led by U.S. Secretary of State John Kerry), war broke out between Israel and Hamas. The discovery of dozens of tunnels dug by Hamas into Egyptian and Israeli territory put another big scare into the Israeli public and prompted a prolonged ground operation—the bloodiest conflict of the Netanyahu era. During 50 days of fighting, more than 2,000 Palestinians and 72 Israelis, mostly soldiers, were killed. Israel's Jewish population overwhelmingly supported the war, but the fighting caused communal tensions in the country to explode. Thousands of Arab Israelis—who identified with the suffering in Gaza and were tired of their own abuse by the police and their increasing marginalization under Netanyahu—protested against the war. Hundreds were arrested, and other Arabs employed in the public sector were reportedly threatened with firing after criticizing the conflict on Facebook.

THE NEW RIGHT

Around the same time, personal animosities within Netanyahu's coalition started to pull it apart. Netanyahu was unable to prevent Israel's parliament, the Knesset, from electing Reuven Rivlin, a longtime Likud rival, to the largely symbolic presidency. And several of the prime minister's erstwhile allies, including Lieberman, endorsed a bill that would have forced *Israel Hayom*

to start charging its readers. (The bill never made it past a preliminary hearing.) In December, the government finally collapsed, and the Knesset called an early election.

Likud went into the 2015 race trailing in the polls. The public was angry with Netanyahu over a small-time financial scandal involving his wife and over the stalemated result of the war with Hamas. The Zionist Union, a new centrist coalition led by Labor's Isaac Herzog, seemed poised to form the next government. But the uncharismatic Labor leader proved no match for his wilier, more experienced adversary. Netanyahu tacked right—scoring an unprecedented invitation to address the U.S. Congress (which he used to denounce the nuclear deal the Obama administration was negotiating with Iran) and stealing votes from smaller conservative parties by promising not to allow a Palestinian state to be established on his watch. Then, on election day, he released a video in which he claimed that “Arab voters are heading to the polling stations in droves. Left-wing NGOs are bringing them in buses.” The statement wasn't true, but it effectively tapped into Jewish voters' anxiety and racism and won Likud the election: Likud emerged with 30 seats; the Zionist Union earned 24.

In Israel's fractious parliamentary system, votes alone don't determine who takes power, however; that gets decided during the coalition-building process that inevitably follows each election. In this case, the electoral math left Netanyahu, who was 31 seats short of a majority, with two choices: he could form a national unity coalition with Herzog and the ultra-Orthodox, or he could forge a narrow but ideologically

cohesive alliance with several smaller center- and far-right parties.

Choosing Herzog would have created a wider coalition and allowed Netanyahu to show a more moderate face to the world. But the prime minister, who was sick of acting like a centrist, picked the latter course instead. That left him with a very narrow, one-seat majority in the Knesset. But it also gave him his first undiluted hard-right government since his 2009 comeback—one that would finally allow him to realize his long-deferred dream of remaking Israel's establishment.

Although Netanyahu is both secular and Ashkenazi, his new allies are mostly Mizrahim—long ostracized from Israel's centers of power, even though they represent a large segment of the Jewish population—and religious Zionists, who are known for their knitted yarmulkes, are fiercely committed to (and often live in) West Bank settlements, and have, in recent years, come to hold many prominent positions in the army, the security services, and the civil service.

These groups are most vocally represented by three members of the current government: Likud's Miri Regev, the minister of culture; Naftali Bennett, the minister of education and head of Habayit Hayehudi (Jewish Home), a religious Zionist party that he built out of the ashes of the old National Religious Party; and Ayelet Shaked, Bennett's longtime sidekick and now the minister of justice. Regev is Sephardic—her family came to Israel from Morocco—and a former brigadier general in the IDF, where she served as chief spokesperson during the Gaza pullout. Bennett, the son of American immigrants, served in the Israeli special forces and then made

a fortune as a high-tech entrepreneur. He is both a model product of the “start-up nation” and the epitome of the religious, fiercely nationalist, pro-settlement leader (although he himself lives comfortably within the Green Line). Shaked, meanwhile, was a computer engineer before joining politics; despite her membership in the Jewish Home, she is neither religious nor a settler. Both she and Bennett worked directly for Netanyahu in Likud a decade ago, when he was the opposition leader, but they broke with him over personal quarrels in 2008.

Like the prime minister, Regev, Bennett, and Shaked are skilled, media-savvy communicators. In keeping with Israeli tradition, all three have complicated, “frenemy” relationships with Netanyahu. Regev climbed the ranks of Likud without the prime minister’s sponsorship, and Netanyahu has never forgiven Bennett and Shaked for their betrayals; the two are never invited to join him at his residence or on his plane. Yet so far, they have not let their personal grievances block the pursuit of their shared interests. Netanyahu needs Bennett and Shaked to keep his coalition afloat, and he needs Regev to maintain his support among Sephardic Israelis, an important Likud constituency. And there are no real ideological differences among the four politicians. Netanyahu is thus happy to let the others lead the charge against the old guard—and to take the heat for it as well.

Since taking office last year, the three ministers have readily obliged him. Regev—who likes to rail against what she calls “the haughty left-wing Ashkenazi elite” and once proudly told an interviewer that she’d never read

Chekhov and didn’t like classical music—has sought to give greater prominence to Sephardic culture and to deprive “less than patriotic” artists of government subsidies. Bennett’s ministry has rewritten public school curricula to emphasize the country’s Jewish character; it recently introduced a new high school civics textbook that depicts Israel’s military history through a religious Zionist lens and sidelines the role of its Arab minority. In December 2015, Bennett even banned *Borderlife*, a novel describing a romance between a young Jewish Israeli woman and a Palestinian man, from high school reading lists.

Shaked, for her part, has vowed to reduce judicial interference in the work of the executive and the Knesset by appointing more conservative justices to the Supreme Court next year, when four to five seats (out of 15) will open up. She has also made good use of her position as head of the cabinet committee on legislation, which decides which bills the executive will support in the Knesset. The committee has recently promoted several draft laws designed to curb political expression. One, aimed at non-Zionist Arab legislators, would allow the Knesset to suspend a member indefinitely for supporting terrorism, rejecting Israel’s status as a Jewish state, or inciting racism. Another, which Shaked has personally championed, would shame human rights groups by publicly identifying those that get more than half their funding from foreign governments. (So far, none of these bills, or even more restrictive measures put forward by Likud backbenchers—such as one that would label left-wing nongovernmental organizations “foreign agents” and another that would triple the jail sentence for flag burning—has been passed.)

Meanwhile, Netanyahu is doing his part as well. After last year's election, he insisted on holding on to the communications portfolio himself, giving him the last word on any media-related legislation. This move has given him unprecedented leverage over Israel's television and telecommunications networks, which have grown leery of doing anything to alienate the prime minister.

Many of the government's recent actions, such as Regev's promotion of Sephardic culture, seem designed to address the traditional disenfranchisement of Israel's Mizrahim and citizens living in the country's "periphery" (that is, far from the central Tel Aviv–Jerusalem corridor). Other measures are aimed at promoting social mobility. Yet virtually all of them have had a clear political goal as well: to reduce, if not eliminate, the domestic opposition to Israel's occupation of the West Bank, which Netanyahu and his allies want to make permanent. By portraying the shrinking peace camp and its supporters as unpatriotic stooges of foreign anti-Semites, the government hopes to delegitimize them and build a consensus around its hard-right policies.

The strategy seems to be working. One example: in a poll conducted last December of Israeli Jews, 53 percent of those surveyed supported outlawing Breaking the Silence, a veterans' group that aims to expose the harsh realities of the occupation by publishing wrenching testimonials of soldiers who have served in the West Bank.

DAGGERS DRAWN

Late last summer, after years of relative quiet, violence erupted in the West

Bank and inside Israel. The first intifada (1987–93) was characterized by mass protests and stone throwing; during the second intifada (2000–2005), organized Palestinian suicide bombings and large-scale military reprisals by Israel caused thousands of casualties. This time, the so-called loners' intifada has taken a more privatized form. Acting on their own, young Palestinian men and women have used knives and homemade guns to attack Israeli military and police checkpoints or civilians at flash points such as the settlements and Jerusalem's Old City. So far, 34 Israelis have died in these assaults. Almost all the perpetrators have been arrested or shot on the spot—to date, about 200 Palestinians have been killed—but more have kept coming.

The loners' intifada has presented the current government with its toughest test so far. Netanyahu has always claimed to be tough on terror and has portrayed his opponents as softies. Yet he and his top aides have seemed clueless in the face of the rising violence. Instead of stanching the bloodshed, they have redoubled their attacks on those they deem enemies within: human rights groups and Arab Israeli politicians. And the center-left parties, worried about looking unpatriotic, have gone along with him. In April, Herzog urged Labor to "stop giving the impression that we are always Arab-lovers." And Yair Lapid, the head of the opposition Yesh Atid (There's a Future) party—another centrist faction—has called on the army and the police to ease their rules of engagement and "shoot to kill whoever takes out a knife or a screwdriver or whatever." Highlighting the danger of such rhetoric, in late March, B'Tselem, a respected human rights group,

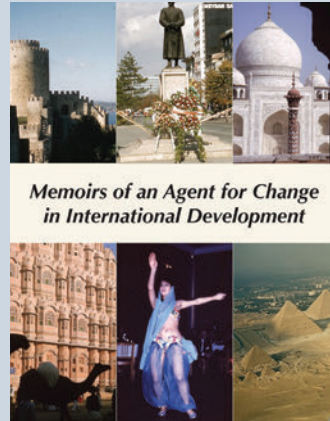
released a video taken in Hebron showing an Israeli soldier executing a Palestinian suspect who had already been shot and was lying, bleeding, on the street.

Instead of remorse, the Hebron shooting unleashed a wave of ugly nationalism among many Israeli Jews. The military high command quickly detained the soldier and declared his action immoral, unlawful, and undisciplined. Yet in a public opinion poll conducted several days after the incident, 68 percent of respondents supported the shooting, and 57 percent said that the soldier should not face criminal prosecution. Far-right politicians, including Bennett, defended the killer, and Netanyahu, who had initially supported the military brass, quickly closed ranks with his right-wing rivals and called the shooter's parents to express his support. When Moshe Yaalon, the defense minister, nonetheless insisted on a criminal investigation, he was roundly attacked on social media for his stand. After Netanyahu seemed to side with Yaalon's critics, their quarrel escalated, and in May, Yaalon resigned. Announcing his decision, Yaalon remarked, "I fought with all my might against manifestations of extremism, violence, and racism in Israeli society, which are threatening its sturdiness and also trickling into the IDF, hurting it."

That Yaalon of all people could be subjected to such treatment shows just how much Israel has changed in recent years. A Likud leader and former IDF chief of staff, Yaalon is no leftist: he supported Oslo but later changed his mind when, as the head of military intelligence, he witnessed Arafat's duplicity firsthand. Yet Yaalon believes

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in the importance of a secular state and the rule of law. That marked him as one of the last of the Ben-Gurion-style old guard still in office. And those credentials were enough to incite the online mob. It didn't matter that he had an impressive military record, opposed the peace process, or supported settlement expansion. In Netanyahu's Israel, merely insisting on due process for a well-documented crime is now enough to win you the enmity of the new elite and its backers.

THE PERMANENT PRIME MINISTER

One of the ways Netanyahu has retained power for so long—he's now Israel's second-longest-serving leader, after Ben-Gurion—has been by tailoring his politics to match public opinion. In 2009, he leaned toward the center because he feared Obama and wanted to dispel his own reputation for recklessness. In recent years, as the Israeli public has shifted rightward, so has he—which has allowed him to more openly indulge his true passions.

Throughout this period, Netanyahu has benefited from one other key asset: the lack of any serious challenger, either inside or outside Likud. Since returning to power in 2009, he has consistently beaten all other plausible candidates for prime minister in public opinion polls—by large margins. Within Likud, Netanyahu has managed to sideline a series of aspirants, such as Moshe Kahlon, Gideon Saar, and Silvan Shalom. And the opposition has failed to produce a credible alternative of its own. After leaving office in 2001, Barak undermined his standing by adopting a lavish lifestyle deemed unseemly for a Labor leader. Meanwhile, Tzipi Livni,

Olmert's foreign minister and his successor as the head of Kadima, actually beat Netanyahu's Likud in the 2009 election, winning 28 seats to Likud's 27. But she was unable to build a large enough coalition to form the next government, and her subsequent weakness as opposition leader damaged her popular appeal.

Bennett is now trying to position himself as a younger and more populist version of his one-time mentor. There's no doubt that Bennett is charismatic and has grown quite popular. But he leads a small party with a limited base that cannot win an election unless it unites with Likud. Nir Barkat, the right-wing mayor of Jerusalem, is another former high-tech entrepreneur who harbors national aspirations. But he lacks charisma and remains unknown to the public outside Israel's capital city.

Netanyahu's strongest current challenger is probably Lapid, the former columnist and TV anchor who established Yesh Atid as a centrist party in 2012 and won a spectacular victory in 2013, earning Yesh Atid the second-highest number of seats in the Knesset. Lapid joined Netanyahu's cabinet after he and Bennett forced the prime minister to drop the ultra-Orthodox parties. But Netanyahu soon outmaneuvered him, pushing Lapid to the Treasury—a well-established graveyard for ambitious politicians, since it often involves making unpopular moves such as raising taxes and cutting benefits. Lapid accomplished little while in office, and in 2015, after a tough fight with Herzog and his Zionist Union over the same voters, Yesh Atid lost almost half its seats. Since then, Lapid has improved his public standing—popularity polls now put Yesh Atid second, after

Likud—by appearing to be more religiously observant and by talking tough on terror. Lapid is a moderate (he supports a Palestinian state and opposes the expansion of remote West Bank settlements), is an excellent communicator, and is an astute reader of public sentiment. But he is hypersensitive—he tends to overreact when criticized—and he lacks security experience, a huge impediment in Israel.

None of this means that Netanyahu is invulnerable, however. In March, *Haaretz* published a poll showing that a new, imaginary centrist party led by Gabi Ashkenazi (a popular former IDF chief of staff), Kahlon, and Saar would beat Likud in an election held tomorrow. But unless its coalition crumbles, the government doesn't need to call a new election until November 2019, and the nonexistent party remains a fantasy. In the meantime, Netanyahu continues to maneuver. He has tried to entice the smaller right-wing parties into forming a new, broader party with Likud (so far, none of them has shown much interest). And this past spring, he held negotiations with Herzog over the formation of a unity coalition, only to back off at the last moment and offer his former ally Lieberman the post of defense minister. With Lieberman inside the government, the ruling coalition—more right-wing than ever—would get an expanded parliamentary base and more room to breathe.

Until the next election does come around, Netanyahu's government will keep trying to cement as many changes as possible to Israeli society and the Israeli establishment. The prime minister and his allies will push to appoint more conservatives to the

Supreme Court and more religious Zionists to key government and academic positions. They will maintain their support for Mizrahi culture and West Bank settlements, will impose more restrictions on left-wing organizations, and will work to increase tensions with Israel's Arabs.

Regardless of who wins the next election, at least some of these changes seem likely to become permanent. The country has already become far less tolerant and open to debate than it used to be. The peace camp has withered, and very few really challenge the status of the occupation anymore. Arab-Jewish relations are so bad that they would take outstanding leadership and enormous effort to fix. And the United States' retrenchment has strengthened the sense among many Israelis that they can go it alone and no longer need to worry about pleasing Washington. It's hard to see how a new Israeli prime minister—or a new U.S. president—will be able to reverse many of these shifts. 🌐

Israel Among the Nations

How to Make the Most of Uncertain Times

Robert M. Danin

In 1996, Ehud Barak, who was then Israel's foreign minister and would later serve as prime minister, characterized Israel as "a modern and prosperous villa in the middle of the jungle." Twenty years later, as political turmoil and violence engulf the Middle East, that harsh metaphor captures better than ever the way most Israelis see their country and its place in the region. Their standard of living has never been higher. Their country's economy is robust, and Israel's entrepreneurial spirit remains the envy of the world. In 2015, Israel ranked as the planet's fifth-happiest country on the Organization for Economic Cooperation and Development's Better Life Index, topped only by Denmark, Finland, Iceland, and Switzerland. In its first half century of existence, Israeli soldiers fought a war virtually every decade against well-armed conventional Arab armies. Today, the threat of such a war has vastly diminished, and the Israeli military has never been stronger, both in absolute terms and relative to its neighbors.

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Now, however, it is Israeli civilians, not soldiers, who are the primary targets of Israel's enemies. They are vulnerable to rockets fired by Hamas from Gaza and by Hezbollah from Lebanon, which have killed over 100 Israelis since 2004. And in the past year, new forms of violence have emerged, as Palestinians have targeted Israelis in over 150 seemingly uncoordinated stabbings and more than 50 attacks in which drivers have intentionally rammed pedestrians with their cars. Israel's citizens feel more vulnerable in a personal sense, walking their streets, than they have since perhaps the 1948 War of Independence. Even during the second intifada, the Palestinian revolt that lasted from 2000 until 2005 and claimed the lives of more than 1,000 Israeli civilians, Jews believed they knew where it was safe to go and where it wasn't. That's not true today: in a recent poll conducted by the Israel Democracy Institute, nearly 70 percent of Israeli Jews surveyed said they greatly or moderately feared that they or people close to them would be harmed by the wave of violence that has swept the country since last October.

Meanwhile, chaos appears to loom across almost every border. A bloody and devastating civil war rages in Syria, where the regime of Bashar al-Assad and the jihadists of the Islamic State (also known as ISIS) seem intent on outdoing each other in brutality. Neighboring Jordan has long served as a buffer of sorts to Israel's east, but it is now struggling under the burden of hosting more than a million Syrian refugees. And ISIS and other jihadist organizations roam the virtual no man's land of the Sinai Peninsula, which the

somewhat wobbly Egyptian government has struggled to secure.

Confronted with threats at home and disorder all around, many Israelis have come to feel that the idealistic aspirations of earlier eras—all those dreams of peaceful coexistence with the Palestinians and with the greater Arab world—were naive at best and profoundly misplaced at worst. A sense of bitterness, resignation, and hopelessness now prevails. Many Israeli politicians seem to see greater advantage in stoking, rather than countering, such sentiments. For example, rather than point to the benefits that peace agreements and negotiated territorial concessions have produced, Israeli Prime Minister Benjamin Netanyahu emphasizes how other territorial withdrawals—ones that were unilateral and unaccompanied by peace agreements—have resulted in further attacks against Israel.

Yet inside Israel's defense establishment, headquartered at the Kirya military complex in Tel Aviv, the picture is more nuanced. Israel's security chiefs share their compatriots' sense that the Middle East has become chaotic and that today's threats are more diffuse and inchoate than those Israel used to face. But these officials also recognize that their country is far from defenseless and that the threat of a conventional conflict has virtually disappeared. As the army's recently leaked National Intelligence Estimate for 2016 concluded, Israel faces no current threat of war and only a low probability of war in the coming year. In fact, the analysts who prepared the document argue that the turmoil sweeping the Middle East may even have improved Israel's strategic position.

The disconnect between public attitudes, political rhetoric, and military risk assessments reflects a kind of sensory overload. Israeli strategic planners can agree on a long list of threats and challenges but not on how to prioritize them. Like Israel's political leaders, they suffer from a deep sense of strategic confusion. So far, their response has been to hunker down and ride out the turbulence. That is a natural reaction. But it's also a risky one, which could lead Israel to forgo the kind of subtle, clever approaches it has adopted in the past when faced with complex threats. For all the danger Israel faces today, the current turmoil has also created real opportunities for Israel to improve its strategic position. But these will come to naught unless the government can see them clearly—and find the strength to take advantage of them.

FRIENDS OLD AND NEW

Although the chaos and violence currently tearing apart the Middle East is deeply unsettling, the changes that have swept the region in recent years have actually led to a closer alignment and stronger relations between Israel and its only official partners in the Arab world, Egypt and Jordan. The peace treaty that Egypt and Israel signed in 1979 removed Israel's single largest military threat and effectively ended the era of all-out war between the Arabs and the Israelis. It remains one of the most important contributors to Israel's security, since it ensures that the country will not be attacked by multiple armies on multiple fronts simultaneously, as it was in 1948, 1967, and 1973. Despite the tumult of the 2010–11 Arab uprisings, including an Egyptian revolution that

briefly brought the anti-Zionist Muslim Brotherhood to power, the peace treaty has proved durable and critical for both countries. Even the Islamist Egyptian president Mohamed Morsi acknowledged the treaty's importance and never sought to challenge or abrogate it. When the military deposed Morsi in July 2013, Egyptian-Israeli ties grew stronger than ever, with both sides firmly aligning against Hamas in Gaza, which is sandwiched between them. Egyptian and Israeli national security interests have converged to such a degree that in 2014, when Hamas rocket attacks provoked an intense 50-day Israeli military campaign in Gaza, Egypt clearly sided with Israel and even waved off U.S. efforts to bring an early halt to the fighting.

In the post-Arab Spring period, Israel has also drawn closer to Jordan, the country with which it shares its longest border. The open cooperation facilitated by the peace treaty that the two countries signed in 1994 has proved crucial to Israel's domestic and regional security interests. Jordan has played an instrumental role in helping defuse tensions at the Jerusalem holy site known to Muslims as Haram al-Sharif, or the Noble Sanctuary, and to Jews as the Temple Mount. Jordan is also helping absorb some spillover from the unrest roiling Iraq and Syria. Security cooperation between Israel and Jordan is flourishing, particularly since both share a common interest in securing Jordan's border with Syria and in countering Islamists across the region.

Farther afield, Israel has also made some new friends and strengthened ties with old ones. In a sense, it has developed a new version of the "periphery doctrine" that the country pursued in

the 1950s, when it established warm ties with important non-Arab states on the outer edges of the Middle East, such as Ethiopia, Iran, and Turkey. Since Israel's strategic relationship with Turkey broke down in 2010, Israel has forged new partnerships with Cyprus and Greece, both bitter foes of the Turkish government. Israel has also developed closer ties with a number of African countries, which has allowed it to increase its influence on the continent and to interdict arms flows to militants in the Sinai and Gaza. And India—which, as a leader of the Non-Aligned Movement, once kept Israel at arm's length—has developed extensive commercial, military, and diplomatic ties with the Jewish state in recent years.

Relations with Russia have also improved markedly: indeed, Netanyahu and Russian President Vladimir Putin clearly enjoy a better relationship with each other than either does with U.S. President Barack Obama. Washington and Moscow have argued viciously over the civil war in Syria; Israel, in contrast, appears to have established some clear rules of the road with Russia for operations there. According to press reports, Russia even temporarily transferred some military officers to Israel's military headquarters in Tel Aviv in order to improve coordination and prevent accidental clashes in the skies above Syria.

UNCLEAR AND PRESENT DANGERS

Despite such gains, Israel still faces many threats and potential dangers, and the country's leaders can't seem to agree on which are most pressing. President Reuven Rivlin, currently one of the country's most popular and widely respected officials, recently



The Over-Promised Land: at the beach in Tel Aviv, December 2014

suggested that ISIS might be the greatest present danger. Yet few in Israel's defense establishment—which comprises Israel's military, intelligence, and national security agencies—agree with that position. They largely see ISIS as an indirect problem, one that represents a bigger threat to regional stability and the viability of Israel's neighbors than it does to the country's own security.

The more direct and urgent danger, most believe, comes from Iran and its two main militant allies: Hamas and Hezbollah. Indeed, in January, then Defense Minister Moshe Yaalon declared that he would rather face ISIS in the Golan Heights than see Iranian troops or their proxies occupy that area. Israeli leaders see Iran as a rising revisionist power and have watched nervously as it has built significant influence, if not quite dominance, in Iraq, Lebanon, Syria, and Yemen.

Yet underneath this general consensus, Israeli leaders don't agree on the precise nature of the danger Iran represents. In recent years, Netanyahu has warned that Iran (or at least a nuclear-armed Iran) could constitute an "existential threat" to Israel. Yet that formulation has been vigorously disputed even by other security hawks, such as Barak—despite the fact that Barak reportedly advocated a military strike on Iran's nuclear facilities as recently as 2012. To them, a nuclear-armed Iran would represent an intolerable threat but not an existential one.

Netanyahu continues to object to the deal Iran struck last year with the United States and other major powers that requires Iran to significantly curtail its nuclear program in exchange for relief from international sanctions. Yet many of Israel's security professionals have adopted the view that the agreement, although flawed, has pushed the Islamic

Republic further away from acquiring a bomb—even further, perhaps, than an Israeli military strike would have. They believe that Tehran has significantly reduced its stockpile of enriched uranium and the number of centrifuges it operates and that Iran’s ability to produce plutonium has been eliminated, for the time being.

Still, virtually all Israeli officials view Iran as implacably hostile and expansionist. And Israel has taken it upon itself to act as the most stringent international monitor of Iran’s compliance with the nuclear agreement, vigilantly pointing out every infraction. But Israel is struggling to determine what, if anything, to do with the additional time—somewhere between five and 15 years—that the nuclear agreement with Iran has put on the clock.

YOU’LL NEVER WALK ALONE

For many decades, Israel enjoyed a high degree of freedom when considering how to respond to the various threats it faced. David Ben-Gurion, the country’s founding father, pursued a delicate strategy of “nonidentification,” courting support from global powers but avoiding the constraints of formal alliances. Today, Israelis still ferociously cling to this idea of independence and to the need for the country to be able to “defend itself, by itself,” as the popular phrase goes.

Yet the reality has long since shifted. Like other medium-size powers, Israel cannot match every possible threat by itself. Most Israelis recognize that truth, and the state has grown increasingly dependent on its only reliable friend, the United States, with which it has developed a de facto strategic partnership over the last 30 years or so.

Israel’s lack of complete independence was demonstrated most dramatically during the standoff between Netanyahu and Obama over Iran. Israel had mobilized its formidable military and intelligence resources to prevent Iran from developing a nuclear breakout capacity. Even as the United States and other great powers initiated talks with Iran, Israel’s air force stepped up its training, and its officials began planning a preventive attack. But faced with stiff opposition from the Obama administration, Israel’s government ultimately stood down. Israel had been deterred—not by Tehran but by Washington.

Still, that episode has created little if any new distance between the two allies; on the contrary, the Israelis have sought to move even deeper into the American embrace. Despite the sour personal relations between Netanyahu and Obama, their two countries are now negotiating a new ten-year military assistance program that will replace and expand an expiring agreement that has ensured over \$3 billion in annual U.S. military assistance for the past decade. And it is almost certain that whoever moves into the White House next year will seek to improve U.S. relations with Netanyahu’s government.

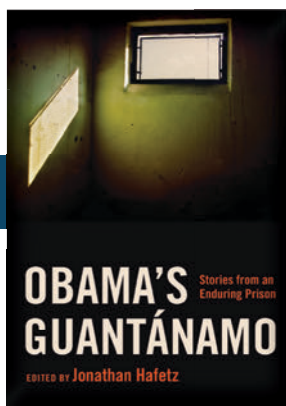
A FORMAL ALLIANCE

Improving relations with Washington and perhaps changing the structure of the U.S.-Israeli relationship represent one of the best ways for Israel to take advantage of this uncertain moment—not by merely seeking a return to the state of affairs before Obama but by forging an even stronger bond with the United States. Israelis regularly refer to the Americans as allies. Yet the United

celebrate

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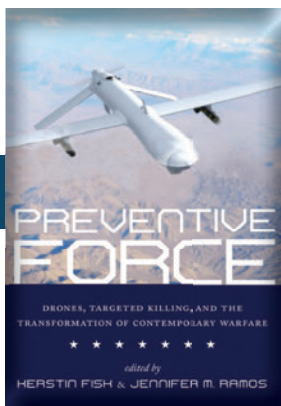
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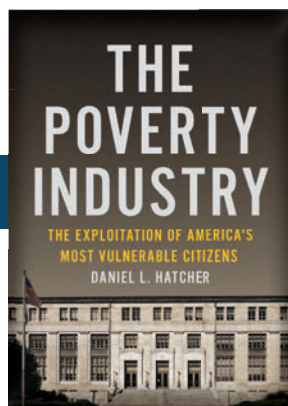
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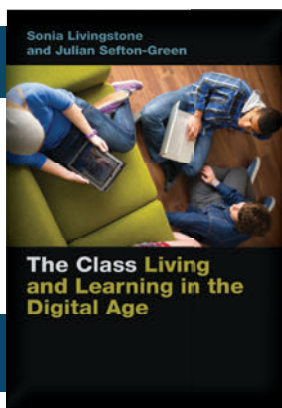
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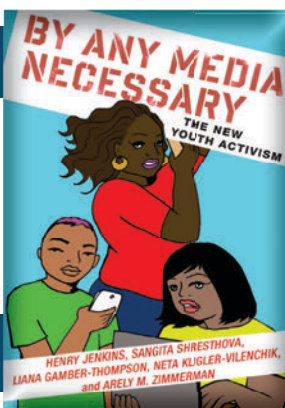
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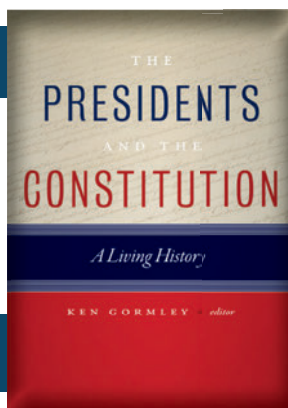
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BE THE CHANGE.

States and Israel have no formal, treaty-based alliance. There have been times when Israel seriously contemplated pushing for such an arrangement. But in each instance, it decided against doing so, fearing that the price Washington would likely demand—territorial concessions to the Arabs—would prove too high.

Today, Israel's ambivalence stems from different factors. First, the Israelis fear that an alliance with the United States would force them to relinquish even more of their military independence, potentially preventing them from conducting certain military actions, ones along the lines of the 2007 Israeli air strike against an incipient Syrian nuclear facility, which the Israelis undertook after extensive consultations with the United States but without American participation. An alliance would also challenge the idea of Israeli self-reliance, which is central to the country's defining ethos.

But as the dispute over Iran's nuclear program showed, when push comes to shove, Israel is already willing to constrain itself and accept a high level of dependence in order to protect its close relationship with the United States. And other U.S. allies, such as Turkey, have initiated military actions when they believed their national interests were threatened, regardless of Washington's views. A formal U.S.-Israeli alliance, therefore, would not necessarily have a significant practical effect on Israeli freedom of maneuver. Israel's other major reservation regarding an alliance stems from a belief that the United States backs Israel partly because the Americans know that the Israelis will never ask U.S. soldiers to fight on Israel's behalf. But a formal alliance

would still allow Israel to maintain its commitment to not ask for American boots on the ground.

An alliance would offer significant benefits to Israel. First and foremost, it would provide an ironclad security guarantee: any attack on Israel would be met and rebuffed by the United States. During the Iran imbroglio, Obama repeatedly pledged that the United States "will always have Israel's back." But he never specifically, publicly promised to protect Israel against an Iranian attack. A treaty with Washington would ensure a lasting commitment of exactly that kind.

A formal alliance would also allow the Israelis to stop worrying, as they frequently do, about the contingent nature of their partnership with the United States. How much longer, they wonder, can Jerusalem safely rely on Washington to maintain their informal, quasi alliance? Many Israelis worry that the two countries will drift further apart as each undergoes demographic, political, and social changes. This may be happening already. A poll recently conducted by the Pew Research Center indicated that each U.S. generation is less sympathetic toward Israel than its predecessor. There is no guarantee that the strong pro-Israel consensus that has long been a bipartisan feature of U.S. politics will endure forever. Now is therefore the time for Israel to lock in the existing benefits of its relationship with Washington.

TAKE THE INITIATIVE

Closer to home, a second extremely important opportunity for Israel to consider involves its relationships with a number of Arab states that have historically wanted nothing to do with it. In

ways unforeseen and largely unintended, Obama may have made a greater contribution to improving these relationships than he ever thought possible. His efforts to pivot the United States away from the Middle East while negotiating with Iran highlighted a number of interests that Israel shares with the Sunni Arab countries—the very same states Israel battled ferociously during the first 50 years of its existence.

In the last decade, the centuries-old Sunni-Shiite divide has grown into a chasm, fueled by—and, in turn, fueling—the rivalry between the Sunni Arab powers and an Iranian-led Shiite bloc. The sectarian split has replaced the region's traditional fault line—the Arab-Israeli conflict—and has begun to reorder the Middle East in surprising ways. Israel and the Sunni Arab states now more clearly share a chief foe, in Iran, and a sense of concern over U.S. retrenchment.

Israel should leverage this change to shape a better future for itself among its neighbors. Some Israelis worry that the Sunni Arab states may be too unstable or unreliable to act as partners. But Israel should seize on their sense of weakness and their openness to explore a formal peace initiative.

In September 1967, following the Arabs' devastating defeat in the Six-Day War—during which Israel captured all of Jerusalem and the west bank of the Jordan River—the Arab League convened in Khartoum, Sudan, and issued its now-infamous declaration of what came to be known as “the three no's”: no peace with Israel, no recognition of Israel, and no negotiations with Israel. Israel responded by casting itself as the reasonable party, willing

to trade territory for peace, and took every opportunity to portray the Arabs as inexorably hostile and belligerent.

But the Arab wall of rejection cracked a decade later, when Egyptian President Anwar al-Sadat traveled to Jerusalem and made peace. And the wall arguably crumbled altogether in 2002, when the Arab League collectively endorsed a proposal put forward by Saudi Crown Prince Abdullah (who was king from 2005 until his death last year) that offered Israel the prospect of peace, security, and normal relations in exchange for a complete Israeli withdrawal to the pre-1967 borders, a move the Arab states see as the only way to begin resolving the Israeli-Palestinian conflict.

The Israelis had ample cause for skepticism. First, the timing was poor. One day prior to the Arab League's endorsement of the plan, Israel suffered a massive terrorist attack in which 30 Israelis in the coastal city of Netanya were killed at a Passover Seder; the bloodshed left the country in no mood to negotiate with its enemies. More substantively, the Israelis doubted that the Arabs could ever be flexible enough on their demand for a “right of return” for Palestinian refugees. And the Israelis also believed that the Arabs were only pretending to reach out to them in order to curry favor with Washington so as to gain leverage in the run-up to an anticipated U.S. invasion of Iraq, which the Arab states opposed.

But the Arab Peace Initiative has proved to be more than a tactical ploy: for the past 14 years, the Arab League has stood by it, even in the face of intense public anger in the Arab and wider Muslim world over Israel's

military actions in Lebanon and Gaza. On the “right of return,” the Arabs have called for “a just and agreed solution,” suggesting there may be some room for flexibility. And in 2013, the league even made modifications to the plan to make it more attractive to Israel: for example, the proposal now incorporates the notion of negotiated land swaps between Israel and the Palestinians, which shows that it is not a take-it-or-leave-it proposal. Emissaries from Egypt and Jordan have traveled to Israel on behalf of the Arab League to allay Israeli apprehensions. Prince Turki al-Faisal, a former head of Saudi intelligence and former ambassador to the United States, has met publicly with prominent Israelis and reached out to the Israeli public through interviews with various Israeli media outlets. Throughout, however, Turki has made it clear that there can be no progress in broader Arab-Israeli relations without addressing the Palestinian issue.

The Israeli government has yet to offer an official response to the plan, and Israel’s leaders have essentially ignored it. There have been a few exceptions: Dan Meridor, a former Likud deputy prime minister, and Yair Lapid, who leads the center-right party Yesh Atid, have both supported the idea of considering the Arab initiative under certain conditions. And a number of former chiefs of the Mossad, the Israeli foreign intelligence service, including Danny Yatom and Meir Dagan, have decried Israel’s lack of a positive response. But for the most part, the Arab plan has been met with Israeli silence. After decades of bemoaning Arab rejectionism, Israel now finds itself branded the rejectionist party itself—by the Arabs.

The staunchest Israeli critics of the Arab Peace Initiative argue that given

the chaos and instability plaguing the region, it’s not even clear how long the current Sunni Arab governments will stay in power: Why negotiate with them when they are so weak? Critics also point out that the Palestinians seem unwilling or unable to conclude a deal—so why give them a veto over Israel’s regional relations? The answer is that talking with the Arabs might have strategic benefits even if it fails to unlock the stalemate with the Palestinians. Better contacts between Israel and the Sunni Arab states, particularly Saudi Arabia, could help forge a more united front against Iran. Israel could test the Arab plan’s sincerity and in doing so open up a channel to the broader Arab world by expressing a desire to negotiate with Saudi Arabia and other Arab League states, while maintaining certain Israeli reservations about some of the plan’s elements. As one senior Israeli official recently told me, “Never before have we been offered so much while being asked for so little in return.”

NOTHING VENTURED . . .

If Israel prefers not to deal with the Arab Peace Initiative, then it should consider offering up its own regional peace initiative, which Netanyahu has declined to do. Many Israelis, even within the prime minister’s camp, have been frustrated by their leader’s passivity on this front. Indeed, Netanyahu’s tenure has been defined not by right-wing extremism, as many of Israel’s detractors claim, but by risk aversion. In his more than seven years in power, Netanyahu has neglected to articulate a vision—much less offer a clear plan—for how Israel could achieve peace and consolidate its security and economic gains. Given the narrow right-

wing base on which his government rests, Netanyahu is understandably reluctant to hint at the types of concessions he would be prepared to make for peace. But in adopting a wait-and-see attitude toward the political changes that are roiling the Middle East, Israel is forfeiting a chance to help set the international agenda in a way that would be favorable to it.

Every previous Israeli prime minister has recognized that when it comes to statecraft, Israel can play either offense (initiating peace negotiations on its own terms) or defense (resisting attempts by its friends and adversaries alike to force it to the table on terms Israel dislikes). Offense—taking the battle to its adversaries—is far more consonant with the traditional Israeli political ethos. Israel would gain considerable support from its friends and allies by outlining a vision for peace and an approach toward realizing it. And the country will continue to pay a price if it fails to do so.

Israelis rightly point out that their conflict with the Arabs no longer defines the region's politics. But that condition will not last forever: an almost inevitable future outbreak of violence in Gaza, the West Bank, or Lebanon will surely return the world's attention to Israel, and the major powers will once again call on it to try to make concessions. What is more, while Israel sits on its hands, the other parties to the conflict are pushing forward with their own agendas. Israel's friends, including the United States, are weighing plans to propose new peace efforts before the end of this year. Meanwhile, Palestinian officials are seeking new ways to confront or isolate Israel, by gaining ever more official recognition at the UN and by

mobilizing international boycotts of Israeli goods and scholarship.

By outlining a plan for peace now, precisely when the Middle East is experiencing unrest and turmoil, Israel has an opportunity to explore the possibility of new relationships in its neighborhood and better ones in the rest of the world. Israel ought to apply to its foreign relations the same innovative, entrepreneurial spirit that has allowed the country to thrive in the technological and military realms. Laying out a vision would not imply a naive denial of harsh realities. Instead, Israel would improve its standing by deciding, after many years of inaction, to simply try. 🌍

Israel's Second-Class Citizens

Arabs in Israel and the Struggle for Equal Rights

As'ad Ghanem

When the world focuses on the Arab-Israeli crisis today, the plight of the 4.6 million Palestinians living in the Gaza Strip and the West Bank gets most of the attention. But another pressing question haunts Israeli politics: the status and future of Israel's own Arab citizens, who number around 1.7 million and make up around 21 percent of its population. Over the past few decades, Arabs in Israel have steadily improved their economic lot and strengthened their civil society, securing a prominent place in the country's politics in the process. But since 2009, when Benjamin Netanyahu began his second term as prime minister, they have also seen their rights erode, as the government has taken a number of steps to disenfranchise them. Israeli policymakers have long defined their state as both Jewish and democratic, but these recent actions have shown that the government now emphasizes the former at the expense of the latter.

This onslaught has triggered a debate among the leaders of the Arab community in Israel over how to respond. One camp wants Arab citizens to deepen their integration into mainstream society and

join forces with the Israeli left to push for equality on the national stage. The other urges Arabs to withdraw from national politics altogether, creating autonomous cultural, educational, and political institutions instead. At the moment, Arab political leaders seem to favor the former approach. But the best strategy would be for Arabs to synthesize these competing visions into a unified program: one that calls on the Israeli government to integrate Israel's Arab citizens into existing political structures even as it demands greater autonomy in such areas as educational and cultural policy. The goal would be a system that grants Jews and Arabs equality in shared institutions and protects the rights of both to shape their own communities.

LEFT OUT AND MOVING UP

Israel's Arab citizens are the descendants of the approximately 150,000 Palestinians who stayed in the country following the expulsion of the majority of their brethren around the time of Israel's establishment in 1948. Over the two decades that followed, Israel's remaining Arabs suffered from high rates of poverty and low standards of living, had few opportunities for education, and were governed by martial law, which imposed various restrictions on them, from limitations on domestic and international travel to constraints on setting up new businesses. To prevent the emergence of independent Arab centers of power, the Israeli government also closely supervised the activity of Arab municipal and religious institutions and arrested many Arab activists.

Since 1966, when martial law was lifted, the situation of Arab citizens has

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improved greatly. Consider education: in 1960, only 60 Arab students were enrolled in Israeli universities; today, there are more than 20,000 Arab university students in the country, two-thirds of whom are female, and around 10,000 Arab Israelis study abroad. Living standards have also risen, as has the status of women, and a strong middle class has emerged.

In 2014, the most recent year for which data are available, 66 of the 112 towns in Israel with more than 5,000 residents had virtually all-Arab populations. And thanks to high birthrates and a young population—half of Israel's Arab citizens are under the age of 20, whereas only 30 percent of Jewish Israelis are—the Arab Israeli population is likely to keep growing fast, with or without more support from the government. (Some Israeli officials have described the growing Arab population as a threat to the Jewish majority; in fact, since the Jewish population is also growing, it is likely that Arabs will continue to make up only around 20 percent of Israel's population over the next three decades.)

In short, Arabs in Israel are wealthier, healthier, and more numerous than ever before. Yet by most measures of well-being, they still lag behind their Jewish counterparts. In 2013, the most recent year for which data are available, the median annual income of Israel's Arab households was around \$27,000; for Jewish households, it was around \$47,000, nearly 75 percent higher. The infant mortality rate is more than twice as high among Arabs as it is among Jews. Arabs are also underrepresented in Israel's bureaucracy and academic institutions, making up less than two percent of the senior faculty in the country's universities.

And Arabs remain deeply segregated from Israel's Jewish population: 90 percent of Arabs live in almost exclusively Arab towns and villages, and with just a few exceptions, Arab and Jewish children attend separate schools. (Nevertheless, Arabs and Jews remain relatively open to integration: a 2015 survey by the Israeli sociologist Sammy Smooha found that more than half of Israel's Arabs and Jews supported the idea of Arabs living in Jewish-majority neighborhoods.)

What is more, when it comes to government support in such areas as the allocation of land for new construction, financing for cultural institutions, and educational funding, Arabs suffer from ongoing discrimination, despite some recent progress. Arabs make up around 21 percent of Israel's population, but according to the Mossawa Center, a nongovernmental organization that advocates for Israel's Arab citizens, Arab communities receive only seven percent of government funds for public transportation and only three percent of the Israeli Ministry of Culture and Sport's budget is allocated for Arab cultural institutions; Arab schools are also significantly underresourced. (Toward the end of 2015, the Israeli government approved a five-year economic development program for Israel's Arab community, worth up to \$4 billion, that will increase funding for housing, education, infrastructure, transportation, and women's employment. Although the plan represents a step in the right direction, the exact amount of funding that will be allocated to each of these areas remains unclear, as does the process by which its implementation will be monitored.) And then there is the fact that Israel defines itself along ethnonationalist

lines that exclude the Arab minority—from a national anthem that famously describes the yearning of a Jewish soul for a homeland in Zion to a flag that displays a Star of David. In these ways, the Israeli government has maintained the dominance of the Jewish majority and denied Arabs genuine equality.

Arabs in Israel thus confront a frustrating confluence of factors: on the one hand, they enjoy a rising socioeconomic position; on the other, they face a government that in many respects has prevented them from achieving true equality. How they respond to this frustrating dynamic, and how the Israeli government reacts, will have an enormous impact on the future of Israeli society, politics, and security.

THE INTERNAL DIVIDE

Arabs in Israel are not politically monolithic, and their goals vary. Their civic organizations, political activists, and public intellectuals offer competing visions for both the community's internal development and its relationship with the state.

Broadly speaking, however, their agendas tend to fall into one of two frameworks, each based on a different understanding of Arab Israelis' split identity. The first—call it a “discourse of difference”—suggests that Arabs' ethnocultural identity, rather than their Israeli citizenship, should be the starting point of their demands for change. By this logic, the Israeli government should empower Arabs to autonomously govern their own communities, by, for example, encouraging Arab officials to reform the curricula of Arab schools. The second—a “discourse of recognition”—takes Israeli citizenship, rather than Arab identity, as its starting point. This framework suggests

that equality will be achieved when the state recognizes Arabs as equal Israeli citizens and equitably integrates them into existing institutions.

For now, the latter approach seems to be dominant among Arabs in Israel. But even across this divide, there are a number of areas of consensus. Arabs of all political tendencies tend to condemn the government's current policies as segregationist and discriminatory; many also contend that the government's professed commitments to democracy and to the Jewish character of the state are irreconcilable. Nor are these the only points on which most Arabs agree: around 71 percent of Arabs in Israel support a two-state solution to the Israeli-Palestinian conflict, according to a 2015 survey, and only 18 percent reject the coexistence of Arabs and Jews in Israel.

The various strains of Arab political thought were brought together in December 2006, when a group of Arab activists and intellectuals published a declaration, *The Future Vision of the Palestinian Arabs in Israel*, that sought to define Arabs' relationship with the state and their hopes for the country's future. The document, which I co-authored, called on the Israeli government to recognize its responsibility for the expulsion of Palestinians around the time of Israeli independence and to consider paying reparations to the descendants of the displaced; to grant Arab citizens greater autonomy in managing their cultural, religious, and educational affairs; to enshrine Arabs' rights to full equality; and, perhaps most striking, to legally define Israel as a homeland for both Arabs and Jews—a direct challenge to the historically Jewish character of the state.

Ratified by the National Committee for the Heads of the Arab Local Authorities in Israel (a body that represents all of Israel's Arabs), the document was embraced by the Arab public: a poll I conducted in 2008 with the sociologist Nohad Ali found that, despite their many differences, more than 80 percent of Arab Israelis supported its main proposals. In the years since its release, politicians representing some of Israel's major Arab political parties have repeatedly called on the government to act on its demands. But Jewish leaders in the Israeli government, media, and academia have largely opposed the document. The board of the Israel Democracy Institute, a think tank, produced a statement in January 2007 arguing that the *Future Vision* report, as well as two other documents released by Arab activists in 2006, "den[ie]d the very nature of Israel as a Jewish and democratic state" and declaring that the institute "reject[ed] this denial and its implication that there is an inescapable contradiction between the state's Jewish and democratic nature."

PARLIAMENTARY PREJUDICE

Arab-Jewish relations got even worse in the years after 2009, when Netanyahu returned to the premiership. Since then, the Israeli government has taken numerous steps to further hold back Arab citizens, from rules that limit the rights of Arabs to live in certain Jewish villages to a law that restricts the ability of Palestinians in the West Bank to obtain Israeli citizenship if they marry an Arab citizen of Israel. (Foreign Jews of any nationality, meanwhile, can become Israeli citizens without establishing family ties to Israelis.) In the Negev

desert, home to most of Israel's Bedouins, the government has introduced projects that aim to cement Jewish control of the land, by, for example, demolishing unrecognized Bedouin settlements and establishing planned Jewish towns in their place. More generally, the Netanyahu government has stepped up the official rhetoric affirming the need to strengthen the Jewish character of the state.

In March 2014, the Knesset passed a law raising the threshold for representation in the legislature from two percent to 3.25 percent of the popular vote. The move threatened to strip the four so-called Arab parties—Balad, Hadash, Ta'al, and the Islamic Movement in Israel's southern branch—of their seats in the election of 2015. It was a reminder that the Israeli government's anti-Arab policies derive as much from the calculation on the part of the Netanyahu government that weakening the political position of Arabs might keep left-wing parties from regaining power as from the prejudices of some Israeli officials.

Largely to prevent their exclusion from the Knesset, the Arab parties banded together in January 2015 to create the Joint List, a big-tent political party that ran on a single ticket in the election held that March. On election day, Netanyahu sought to boost Jewish turnout by making the racially charged claim that Arab voters were "streaming in droves to polling stations." The Joint List was remarkably successful nevertheless. Some 82 percent of Israel's Arab voters cast a ballot in support of it. With 13 seats, it emerged as the third-largest political party in the Knesset after Netanyahu's Likud Party and the center-left Zionist Union. Even more impressive, the Joint List managed to increase turnout among Arab voters by



Speaking up: the Joint List leader Ayman Odeh at a protest in Tel Aviv, October 2015

seven percentage points, from 56.5 percent in the 2013 election to 63.5 percent in 2015. This surge suggests that Arabs in Israel have become more confident that their elected representatives can overcome their differences and act as an effective united force in the Israeli establishment—in short, that national politics offer a path toward change. At least when it comes to parliamentary representation, right-wing efforts to impede the progress of the country's Arabs have not succeeded.

Rather than accept this show of strength, Netanyahu's coalition responded with further measures meant to weaken Arabs' political position. In November 2015, his government outlawed the northern branch of the Islamic Movement, an Islamist organization that has rallied a substantial portion of the Arab community around opposition to what it describes as

Jewish threats to Muslim holy sites in Jerusalem. And in February of this year, after three Arab parliamentarians visited the families of Palestinians who were killed after attacking Israelis, Jewish lawmakers introduced a so-called suspension bill that would allow a three-fourths majority of the Knesset to eject any representative deemed to have denied the Jewish character of the state or incited violence. The Arab population views the proposed law as a direct attempt to sideline their representatives on the national stage. "Despite the delegitimization campaign against us and the raising of the electoral threshold, we decided to remain part of Israeli politics," Ayman Odeh, an Arab parliamentarian who heads the Joint List, said during a debate on the proposed rule in the Knesset in February. "Yet we continue to be harassed."

CITIZENS, UNITED

These developments have intensified the search for a new approach among Arab elites. Two main alternatives have emerged. The first, headed by Odeh, argues that Arab Israelis should work with the Israeli left to unseat the Netanyahu government and replace it with a center-left coalition that is willing to resume the peace talks with the Palestinians and consider major steps to advance the equality and integration of Arab citizens. The second, led by the northern branch of the Islamic Movement, as well as those Knesset members on the Joint List who represent Balad, opposes forming a coalition with the Israeli left. Both camps support the creation of a separate political body to represent Arab citizens, but whereas the former believes that such a body should supplement Arab voters' current representation in the Knesset, the latter believes it should replace it.

These competing platforms have split the Arab public. In the 2015 survey conducted by the sociologist Smootha, 76 percent of Arab Israelis polled supported the Joint List's cooperation with Jewish parties in the Knesset. But 33 percent of Arab respondents voiced support for a boycott of Knesset elections; 19 percent supported the use of any means, including violence, to secure equal rights; and 54 percent said that a domestic intifada would be justified if the situation of Arabs does not substantially improve.

The future of the Arabs in Israel depends in part on their ability to overcome these internal divisions, which have hindered the ability of the Arab leadership to achieve progress. Disagreement among Arab leaders as to whether

a directly elected Arab political institution should replace or supplement Arabs' representation in the Knesset, for example, has so far left the Arab population without an elected body of its own. In fact, it should be possible to synthesize these competing visions into a unified program that pushes for equal representation in existing institutions and greater autonomy when it comes to educational and cultural policy. No matter what shape such a platform takes, however, it should commit Arab activists to nonviolence, and it should clearly demand that the Israeli government abolish discrimination in the allocation of state resources. Finally, since broad support for Arabs' demands for change will make them more effective, Arabs should invite Jews in Israel, Jewish organizations outside the country, Arabs and Palestinians in the region, and others in the international community that are sympathetic to their cause to endorse the platform.

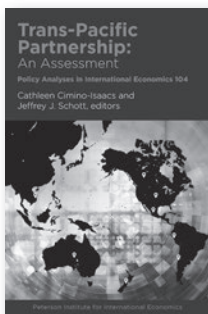
But in many ways, the future of the Arabs in Israel hinges on developments over which they have little control. The first is how the Netanyahu government and its successors manage Israel's conflict with the Palestinians in the Gaza Strip and the West Bank: whereas open violence between Israel and the Palestinians tends to exacerbate anti-Arab sentiment among Israel's Jewish majority, a solution to the conflict could set the stage for reconciliation among Arabs and Jews in Israel. The second, of course, is how the Israeli government treats its own Arab citizens. Regardless of the state's choices, however, Arabs in Israel can still shape their own fate—but that will require settling on a unified political program. 🌍

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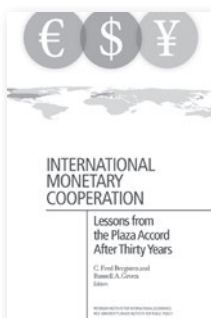
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Israel's Evolving Military

The IDF Adapts to New Threats

Amos Harel

Soon after Benjamin Netanyahu began his second term as Israel's prime minister in March 2009, he ordered the country's military to develop a plan for a unilateral military strike on Iran's nuclear facilities. The air force and the intelligence branch went to work immediately; according to Ehud Olmert, Netanyahu's predecessor, the preparations alone would ultimately cost the country nearly \$3 billion.

Israel never carried out the attack, of course, and in retrospect, Netanyahu and Ehud Barak, then Israel's defense minister, may never have seriously considered launching one. But U.S. President Barack Obama took the threat seriously enough to toughen sanctions against Iran in response. By bringing the Iranian economy to its knees, the sanctions paved the way for the election of President Hassan Rouhani, a relative moderate who pushed through the international agreement that has since put Iran's nuclear program on hold for the next decade.

Since then, Israel's security agencies have been able to refocus their attention

on all the other threats that gathered during the years they were preoccupied with Iran's nukes. In the last five years, states and borders have collapsed throughout the Middle East, militant groups such as the Islamic State (also known as ISIS) have conquered vast territories and drawn in large numbers of followers, and the schism between Shiites and Sunnis has turned more violent. All this turmoil has fundamentally transformed the dangers Israel now faces. The conventional threat once posed by the Syrian military has almost completely disappeared, only to be replaced by the appearance of more terrorists on another of Israel's borders.

At the same time, since October 2015, the conflict with the Palestinians has flared up, with teenagers from the West Bank carrying out "lone wolf" knife and gun attacks. The Israeli military's response to the violence has raised thorny questions about its code of conduct and laid bare the broader divisions—between right and left, and between religious and secular Jews—that are transforming the Israel Defense Forces and the country itself. At the same time that the IDF must confront external threats, then, Israel's internal problems are falling on its shoulders.

UNSWORN ENEMIES?

Shortly before Gadi Eisenkot became the IDF's chief of staff in February 2015, he met with Dan Meridor, a former member of Netanyahu's security cabinet. "You're going to command an exceptional army," Meridor told me he told Eisenkot. "You only have one problem: there are no serious enemies left to fight." Meridor was exaggerating, but he had a point. Israel's traditional foes no longer pose the threat they once did.

AMOS HAREL is Senior Military Correspondent for *Haaretz* and the author of *Teda kol em Ivria: Kavim ledmutu shel Zahal hachadash* (Let Every Jewish Mother Know: The New Face of the IDF).

For most of the past few decades, the IDF's nightmare scenario was a repeat of the 1973 Yom Kippur War, when Syrian tanks stormed the Golan Heights and Syrian commandos captured Mount Hermon in a surprise attack. Today, after more than five years of civil war, Syria has disintegrated, and the risk of a conventional conflict with Israel has nearly vanished. In April, Israeli soldiers on Mount Hermon told me that their Syrian counterparts on the other side of the border, unable to obtain supplies, had deserted their positions more than a year earlier. Most of Syria's tank units and artillery batteries have disbanded, and much of the country's massive arsenal of chemical weapons, which Damascus began stockpiling in the 1970s to deter Israel, has been dismantled under international supervision.

As for the Arab countries still controlled by the authoritarian old guard, they have grown ever more interested in cooperating with Israel, albeit quietly. Egypt, Jordan, and, to a lesser extent, Saudi Arabia and the United Arab Emirates have abandoned their past fixation on the Israeli-Palestinian conflict and have mostly recognized that the problems they share with Israel are bigger than those that divide them: Iran and its proxies, on the one hand, and ISIS and al Qaeda, on the other. As did Israeli leaders, Saudi officials criticized the Obama administration over the nuclear deal with Iran; in recent years, Saudi Arabia has also stepped up its intelligence sharing with Israel.

The disappearance of the conventional threats to Israel's security is not just the result of recent regional turmoil, however; it is also a product of these governments' recognition of Israel's

military superiority. When it comes to Israel's commanders, defense technologies, air force, and intelligence agencies, the country's capabilities are vastly superior to those of its neighbors. Its victories in most conflicts since 1948 have made this superiority abundantly clear. Partly as a result, since 1973, Syria has mostly avoided confronting Israel directly, and Egypt and Jordan have signed peace agreements with it.

DANGEROUS NEIGHBORS

Yet considering the remaining threats to Israel's security—militant groups—the picture grows darker. At the moment, Hezbollah and ISIS are too busy fighting each other in Syria to think much about Israel. But both groups have declared their intention to attack it in the future. Once Syria's civil war finally ends, Hezbollah will probably need time to regroup and so will hold off on attacking Israel; ISIS will likely act on its threats sooner.

Over the last ten years, Hezbollah has amassed an arsenal of between 100,000 and 150,000 rockets and missiles. During the 2006 war in Lebanon, the group launched some 4,200 of such projectiles at Israeli towns and cities. Most of them missed, but they still killed 42 Israeli civilians and provoked a massive military response—a sign that Hezbollah had managed to exploit Israel's extreme sensitivity to casualties. Since then, the group's leaders have pledged to up the ante in any future conflict. Should Israel attack again, they say, they will turn Lebanese territory into a death trap for IDF forces; Israeli officials contend that Hezbollah would hit Israeli towns and infrastructure with as many as 1,500 rockets per day and launch cross-border raids on Israeli villages and military



On guard: an Israeli soldier in northern Israel, April 2016

installations. Using this combination of asymmetric tactics, Hezbollah believes that it will force Israel into a stalemate—an outcome Hezbollah could then present as a victory, given the IDF's enormous advantages.

At the beginning of this year, Hassan Nasrallah, Hezbollah's secretary-general, claimed that the group plans to supplement this approach with still new tactics. In the event of an Israeli attack, he promised, Hezbollah will strike Israeli nuclear sites and fire rockets at chemical storage tanks in Haifa, where much of Israel's heavy industry is located. (Nasrallah has also claimed that Hezbollah would invade the Galilee, the Israeli region closest to the Lebanese border.) Although Hezbollah may prove too weak to deliver on such threats in the face of an all-out Israeli invasion, the group clearly poses a more serious threat than it did a few years ago. Despite the heavy casualties

Hezbollah has sustained in Syria, its commanders will emerge from the conflict there with valuable combat experience that they could use against the IDF. After the Syrian civil war ends, Hezbollah and its Iranian patrons will no doubt still view Israel as the region's major source of evil. But because the group will likely be reeling from that bloody conflict, it will probably not attack immediately; rather, it will wait months or even years for the right moment to strike.

Should Hezbollah unleash its promised barrage of rocket attacks on Israel, the mayhem would bring civilian life there to a virtual halt, putting the government under enormous public pressure to stop the attacks. To do so, it would likely send tens of thousands of ground troops deep into Lebanon and carry out aggressive air strikes against Hezbollah's bases there. But since Hezbollah has

built its bases in densely populated areas, the IDF would likely kill many Lebanese civilians in the process. The Israeli government would thus find itself in a bind, facing intense domestic demands for rapid action on the one hand and international condemnation for its tactics on the other. To make matters worse, the IDF would be unlikely to achieve a decisive victory: even under a heavy offensive, Hezbollah would still be able to fire a large number of rockets at Israel.

Israel's current military leaders recognize this dilemma, but they also contend that against massive rocket fire, there would probably be no alternative to an IDF ground maneuver in Lebanon. The goal of inflicting massive military destruction on Lebanon would be to deter Hezbollah from attacking for at least a decade after the end of a potential conflict.

As for ISIS, it represents a significant threat to Israel, but it is not as dangerous as Hezbollah. ISIS has already sent some of its foreign fighters home to Europe to attack Jewish targets there and has repeatedly threatened to attack Israel from both the Egyptian and the Syrian border. It will likely try to do so soon, since doing so would give it a massive PR boost. To prepare for that possibility, the IDF has deployed more forces to both borders and strengthened its fences there; it has also stepped up intelligence gathering on the group.

The Palestinian territories, meanwhile, present their own set of problems. Since at least 2007, when Hamas took over Gaza by force the year after it won elections there, the IDF has worked closely with the Palestinian Authority, which still governs the West Bank, to

counter the group. In return for the PA's cooperation, the Israeli government has generally not intervened in the PA's domestic affairs and has allowed the West Bank to enjoy a modest economic recovery. At the same time, more and more Israeli leaders have abandoned talk of a permanent peace and have started focusing on how to manage, rather than resolve, the conflict.

Yet Israel's strategy has recently run into serious problems. During Israel's 2014 military campaign against Hamas, the IDF aggressively bombed Gaza in order to stop the group's rocket fire and destroy the tunnels it had dug under the border. Israel even sent in ground troops to kill Hamas' fighters and attack its military infrastructure near the border with Israel. The death toll—1,483 Palestinian civilians, 722 Palestinian fighters, and 72 Israelis, 66 of them soldiers, were killed, according to the UN—led to intense Western criticism of Israel's tactics as unnecessarily brutal.

In Gaza, the IDF faces the same dilemma as in Lebanon: stopping enemy attacks seems to require Israeli offensives that kill many civilians. Worse, it appears that another conflict with Hamas may be in the offing. Lacking the support from Egypt it once enjoyed and facing public discontent as everyday life in Gaza becomes increasingly miserable, the militant group is feeling pressured, which might encourage it to begin another round of escalation with Israel.

ARMY AND NATION

Not only has Israel's military had to contend with shifting external threats; it has also had to grapple with changes in its own society. Until at least the mid-1980s, Israel saw itself as struggling

for survival. Most Israeli men considered combat service a national necessity and a personal aspiration, and most women were content to serve in the IDF in noncombat support roles. For the first few decades after the Holocaust, most Israelis thought that spending time in uniform and suffering military casualties were a worthwhile price to pay for protecting the country.

Since the 1980s, however, that sentiment has diminished somewhat. Many Israelis began to disapprove of the occupation of the Gaza Strip and the West Bank and to question their country's actions in the 1982 war with Lebanon and in the first intifada, which began in 1987. Then, in the early 1990s, came the Oslo Accords, which were designed to settle the Israeli-Palestinian conflict once and for all; at the same time, Israel deepened its security, economic, and cultural ties to the United States and some western European countries. Many Israelis became convinced that their country might finally break the pattern of seemingly endless conflict. That daydream was shattered by the assassination of Yitzhak Rabin, Israel's then prime minister, in 1995, and by the second intifada, which lasted from 2000 to 2005. Yet many Israelis retained their skepticism over the value of their country's military actions. Israel has now become the kind of society that the military strategist Edward Luttwak might call "post-heroic"—one that is less willing to risk the lives of its young people in wars that segments of the population do not consider absolutely necessary. Some Israelis have also become less comfortable with enemy civilian deaths, in part out of concern for their country's international reputation.

At the same time, the military's demographic makeup has started to change. Today, only 73 percent of eligible Jewish Israeli men and 58 percent of eligible Jewish Israeli women serve in the IDF—a historic low in a country with a long-standing policy of mandatory military service for most Jews. Many of the Jewish men who don't serve are ultra-Orthodox and non-Zionist; under a long-standing deal with the government, they are exempted from service so that they can continue their religious studies. Jewish women, meanwhile, can opt out of service simply by declaring themselves religious, even if they are Zionists and aren't ultra-Orthodox. Such exemptions frustrate much of the secular population, especially the parents of military-age Israelis, who feel that the rules place an undue burden on those willing to serve. Since 2014, the state has required several thousand highly religious yeshiva students to enlist each year, and the students have generally complied. But popular tension over the exemptions seems set to continue.

Another major change that has occurred in recent years is the increasing reluctance of liberal secular Jews to volunteer to serve as officers and in combat units. A growing number of mostly right-wing religious Zionists have stepped in to fill these gaps, coming to dominate the ranks of the IDF's elite combat groups. Between 1990 and 2010, the percentage of religious junior officers in infantry units rose from 2.5 percent to somewhere between 35 percent and 40 percent. This changing balance raises a number of potential problems. It is conceivable, for example, that units staffed by religious, right-wing Israelis might not obey an order to dismantle

Jewish settlements in the West Bank. The IDF dismantled such settlements during Israel's withdrawal from the Gaza Strip in 2005, and during that operation, some 60 Israeli soldiers refused to take orders from their superiors; a withdrawal from the West Bank, where there are far more settlers than there were in Gaza before 2005, could pose a greater challenge. Highly religious male soldiers may also have problems interacting with their female colleagues: some have already refused to serve in mixed combat units and have demanded that women soldiers dress in "modest" uniforms. In recent years, the extent of gender segregation within IDF units and the degree to which religious soldiers should be permitted to excuse themselves from cultural activities that they consider immoral have been issues of near-constant debate in Israel; the IDF appears to be leaning toward secular approaches to such issues and has faced growing criticism from rabbis and some members of the Knesset for doing so.

Israelis have also grown more critical of the IDF's performance, particularly in the conflict in Lebanon in 2006 and in its 2014 military campaign in Gaza; public opinion polls suggest that most Israelis believe their country ended both those conflicts in a draw. Many taxpayers now have a hard time understanding why a military with an annual budget of around \$8 billion has struggled to defeat far smaller and less technologically advanced opponents such as Hamas and Hezbollah. What many of these critics don't realize, however, is that decisive victories against such opponents are hard to achieve. Nevertheless, this gap between the public's expectations and the military's ability

to defeat unconventional opponents could become a bigger problem should another war with Hezbollah break out, for most Israelis fail to recognize how much the group's capabilities and ambitions have grown in recent years.

UNCONVENTIONAL WISDOM

To deal with all these changes, soon after Eisenkot was appointed chief of staff, he introduced a five-year plan to streamline the Israeli military. By 2017, the IDF expects to reduce its 45,000-strong officer corps by 5,000; release tens of thousands of older, unfit, and poorly trained soldiers from its reserves; and eliminate many of the army's aging armored brigades, some of which used 1960s-era Patton tanks until recently. The Israeli air force has unveiled plans to get rid of dozens of its 40-year-old warplanes, including some of its older F-15s and F-16s, and purchase at least two squadrons (or around 50 planes) of new F-35 fighters from the United States. Like his predecessors, Eisenkot has also pledged to invest generously in Israel's cyberwarfare and intelligence units.

Unlike his predecessors, however, Eisenkot has acknowledged that the IDF's technological prowess may not be enough to allow it to triumph against an unconventional enemy. To fill the gap, he has refocused the army's training on countering guerilla-style opponents; updated the structure of its ground forces by, for example, establishing a new commando brigade; and revised its operational plans for defending Israel's borders to prepare elite units for offensive action. Finally, Israel's air force, army, and intelligence units are working to improve their ability to coordinate and share information in

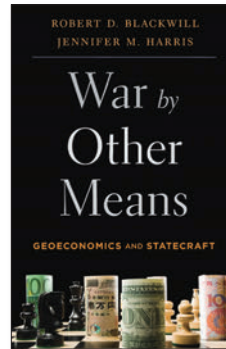
the event of a major conflict with Hezbollah.

These reforms, while important, will not help the IDF address its most immediate challenge, however: the consequences of the surge in violence that broke out in Israel and the Palestinian territories last October after Jewish radicals attempted to pray on the Temple Mount—an area known to Muslims as the Noble Sanctuary and that the Israeli government and Muslim leaders have reserved for Muslim prayer since 1967. In the intervening months, young Palestinians have carried out a string of lone-wolf attacks, ramming cars into Israeli pedestrians and soldiers or stabbing them in the streets. By early May, the assailants had killed more than 30 Israelis; the IDF, meanwhile, had killed more than 175 alleged Palestinian attackers and arrested around 2,500 more Palestinians.

So far, Israel has avoided the collective punishments, such as denying Palestinians permits to work in Israel, that it employed during the first and second intifadas. The IDF has also insisted on maintaining its cooperation with the PA's security agencies. In the months after October, Israel's security agencies began to foil an increasing number of attacks, mostly by monitoring social media. The PA has unveiled a campaign to dissuade high school students from joining the conflict, and in February, it started preemptively arresting potential assailants.

None of this has diminished the anxiety inside Israel, however, and the attacks have provoked hysterical and sometimes racist responses from both civilians and officials. Even Eisenkot has become a target of this vitriol: in

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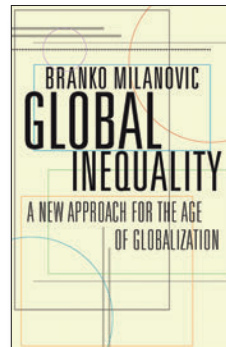
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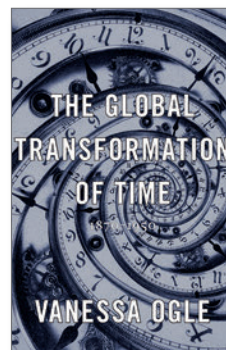
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January, for example, when he insisted that the army adhere to its rules of engagement in order to avoid unnecessary deaths, he was severely criticized, not just by right-wing backbenchers in the Knesset but also by some ministers in the governing Likud Party.

The debate turned even uglier in late March after a soldier was videotaped shooting a Palestinian assailant in the head as he lay wounded on the ground. The Israeli army charged the soldier with manslaughter. Right-wing legislators and nationalist soccer hooligans held a heated demonstration outside the military court near the southern city of Ashkelon. Posters portraying Eisenkot and then Defense Minister Moshe Yaalon as traitors appeared around the Kirya, the IDF's Tel Aviv headquarters. But Eisenkot did not crack under the pressure: the soldier's trial began in early May, and Eisenkot has insisted that he alone is responsible for defining the military's rules of engagement.

Eisenkot's deputy, Major General Yair Golan, got into even worse trouble a few days later in May, on Israel's Holocaust Remembrance Day, when he gave a speech warning of increasingly racist and violent trends in Israeli society. By claiming that he recognized some similarities between developments in contemporary Israel and "the revolting processes that occurred in Europe in general, and particularly in Germany . . . 70, 80, and 90 years ago"—an allusion to the Nazi period—Golan caused a massive scandal. Right-wing ministers demanded his resignation, and Netanyahu publicly reprimanded him for "cheapen[ing] the Holocaust." Golan will remain in office, but his chances of becoming Eisenkot's successor in 2019 now seem diminished.

(Yaalon resigned on May 20, saying that he strongly disagreed with Netanyahu's government "on moral and professional issues.")

All of this has left Eisenkot with two main challenges: defending the army and its code of ethics from both left- and right-wing critics and preparing it for war on several different and uncertain fronts. So far, he has managed the tasks well. But he increasingly finds himself at odds with many Israeli citizens, with conservative politicians, and, perhaps most important, with some of his own soldiers, who prefer to shoot Palestinian attackers first and ask questions later. At the very time the IDF should be retooling itself to confront a new set of external threats, it has found itself thrust into a new and uncomfortable role as one of the last gatekeepers of Israel's democracy. 🌐

Israel and the Post-American Middle East

Why the Status Quo Is Sustainable

Martin Kramer

Was the feud between U.S. President Barack Obama and Israeli Prime Minister Benjamin Netanyahu, first over settlements and then over Iran, a watershed? Netanyahu, it is claimed, turned U.S. support of Israel into a partisan issue. Liberals, including many American Jews, are said to be fed up with Israel's "occupation," which will mark its 50th anniversary next year. The weakening of Israel's democratic ethos is supposedly undercutting the "shared values" argument for the relationship. Some say Israel's dogged adherence to an "unsustainable" status quo in the West Bank has made it a liability in a region in the throes of change. Israel, it is claimed, is slipping into pariah status, imposed by the global movement for Boycott, Divestment, and Sanctions (BDS).

Biblical-style lamentations over Israel's final corruption have been a staple of the state's critics and die-hard anti-Zionists for 70 years. Never have they been so detached from reality. Of course, Israel

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has changed—decidedly for the better. By every measure, Israel is more globalized, prosperous, and democratic than at any time in its history. As nearby parts of the Middle East slip under waves of ruthless sectarian strife, Israel's minorities rest secure. As Europe staggers under the weight of unwanted Muslim migrants, Israel welcomes thousands of Jewish immigrants from Europe. As other Mediterranean countries struggle with debt and unemployment, Israel boasts a growing economy, supported by waves of foreign investment.

Politically, Netanyahu's tenure has been Israel's least tumultuous. Netanyahu has served longer than any other Israeli prime minister except David Ben-Gurion, yet he has led Israel in only one ground war: the limited Operation Protective Edge in Gaza in 2014. "I'd feel better if our partner was not the trigger-happy Netanyahu," wrote the *New York Times* columnist Maureen Dowd four years ago. But Netanyahu hasn't pulled triggers, even against Iran. The Israeli electorate keeps returning him to office precisely because he is risk averse: no needless wars, but no ambitious peace plans either. Although this may produce "overwhelming frustration" in Obama's White House, in Vice President Joe Biden's scolding phrase, it suits the majority of Israeli Jews just fine.

Netanyahu's endurance fuels the frustration of Israel's diminished left, too: thwarted at the ballot box, they comfort themselves with a false notion that Israel's democracy is endangered. The right made similar claims 20 years ago, culminating in the assassination of Prime Minister Yitzhak Rabin. Anti-democratic forces exist in all democracies, but in Israel, they are either outside the

system or confined in smaller parties, Jewish and Arab alike. There is no mechanism by which an outlier could capture one of the main political parties in a populist upsurge, as now seems likely in the United States. Under comparable pressures of terrorism and war, even old democracies have wavered, but Israel's record of fair, free elections testifies to the depth of its homegrown democratic ethos, reinforced by a vigorous press and a vigilant judiciary.

Israel is also more secure than ever. In 1948, only 700,000 Jews faced the daunting challenge of winning independence against the arrayed armies of the Arab world. Ben-Gurion's top commanders warned him that Israel had only a 50-50 chance of victory. Today, there are over six million Israeli Jews, and Israel is among the world's most formidable military powers. It has a qualitative edge over any imaginable combination of enemies, and the ongoing digitalization of warfare has played precisely to Israel's strengths. The Arab states have dropped out of the competition, leaving the field to die-hard Islamists on Israel's borders. They champion "resistance," but their primitive rocketry and tunnel digging are ineffective. The only credible threat to a viable Israel would be a nuclear Iran. No one doubts that if Iran ever breaks out, Israel could deploy its own nuclear deterrent, independent of any constraining alliance.

And what of the Palestinians? There is no near solution to this enduring conflict, but Israel has been adept at containing its effects. There is occupied territory, but there is also unoccupied territory. Israel maintains an over-the-horizon security footprint in most of

the West Bank; Israeli-Palestinian security cooperation fills in most of the gaps. The Palestinian Authority, in the words of one wag, has become a "mini-Jordan," buttressed by a combination of foreign aid, economic growth, and the usual corruption. By the standards of today's Middle East, the Israeli-Palestinian conflict remains stable. It is prosecuted mostly at a distance, through maneuvering in international bodies and campaigns for and against BDS. These are high-decibel, low-impact confrontations. Yossi Vardi, Israel's most famous high-tech entrepreneur, summarizes the mainstream Israeli view: "I'm not at all concerned about the economic effect of BDS. We have been subject to boycotts before." And they were much worse.

Every political party in Israel has its own preferred solution to the conflict, but no solution offers an unequivocal advantage over the status quo. "The occupation as it is now can last forever, and it is better than any alternative"—this opinion, issued in April by Benny Ziffer, the literary editor of the liberal, left-wing *Haaretz*, summarizes the present Israeli consensus. It is debatable whether the two-state option has expired. But the reality on the ground doesn't resemble one state either. Half a century after the 1967 war, only five percent of Israelis live in West Bank settlements, and half of them live in the five blocs that would be retained by Israel in any two-state scenario.

In the meantime, Egypt, Jordan, Saudi Arabia, and the United Arab Emirates are all shaking hands with Israel, sometimes before the cameras. Israel and Russia are assiduously courting each other; still farther afield, Israel's relations with China and India are booming. The



Mind the gap: Hillary Clinton and Benjamin Netanyahu in Jerusalem, November 2012

genuine pariah of the Middle East is the Syrian regime, which never deigned to make peace with Israel. This last so-called steadfast Arab state is consumed from within by a great bloodbath; its nuclear project and massive stocks of chemical weapons are a distant memory.

Israel faces all manner of potential threats and challenges, but never has it been more thoroughly prepared to meet them. The notion popular among some Israeli pundits that their compatriots live in a perpetual state of paralyzing fear misleads both Israel's allies and its adversaries. Israel's leaders are cautious but confident, not easily panicked, and practiced in the very long game that everyone plays in the Middle East. Nothing leaves them so unmoved as the vacuous mantra that the status quo is unsustainable. Israel's survival has always depended on its willingness to sustain the status quo that it has created,

driving its adversaries to resignation—and compromise. This is more an art than a science, but such resolve has served Israel well over time.

THE SUPERPOWER RETREATS

Still, there is a looming cloud on Israel's horizon. It isn't Iran's delayed nukes, academe's threats of boycott, or Palestinian maneuvers at the UN. It is a huge power vacuum. The United States, after a wildly erratic spree of misadventures, is backing out of the region. It is cutting its exposure to a Middle East that has consistently defied American expectations and denied successive American presidents the "mission accomplished" moments they crave. The disengagement began before Obama entered the White House, but he has accelerated it, coming to see the Middle East as a region to be avoided because it "could not be fixed—not on his watch, and not for a

generation to come.” (This was the bottom-line impression of the journalist Jeffrey Goldberg, to whom Obama granted his legacy interview on foreign policy.)

If history is precedent, this is more than a pivot. Over the last century, the Turks, the British, the French, and the Russians each had their moment in the Middle East, but prolonging it proved costly as their power ebbed. They gave up the pursuit of dominance and settled for influence. A decade ago, in the pages of this magazine, Richard Haass, the president of the Council on Foreign Relations, predicted that the United States had reached just this point: “The American era in the Middle East,” he announced, “. . . has ended.” He went on: “The United States will continue to enjoy more influence in the region than any other outside power, but its influence will be reduced from what it once was.” That was a debatable proposition in 2006; now in 2016, Obama has made it indisputable.

There are several ways to make a retreat seem other than it is. The Obama administration’s tack has been to create the illusion of a stable equilibrium, by cutting the United States’ commitments to its allies and mollifying its adversaries. And so, suddenly, none of the United States’ traditional friends is good enough to justify its full confidence. The great power must conceal its own weariness, so it pretends to be frustrated by the inconstancy of “free riders.” The resulting complaints about Israel (as well as Egypt and Saudi Arabia) serve just such a narrative.

Israel’s leaders aren’t shy about warning against the consequences of this posture, but they are careful not to think out loud about Israeli options in a post-American

Middle East. Israel wants a new memorandum of understanding with the United States, the bigger the better, as compensation for the Iran nuclear deal. It is in Israel’s interest to emphasize the importance of the U.S.-Israeli relationship as the bedrock of regional stability going forward.

But how far forward is another question. Even as Israel seeks to deepen the United States’ commitment in the short term, it knows that the unshakable bond won’t last in perpetuity. This is a lesson of history. The leaders of the Zionist movement always sought to ally their project with the dominant power of the day, but they had lived through too much European history to think that great power is ever abiding. In the twentieth century, they witnessed the collapse of old empires and the rise of new ones, each staking its claim to the Middle East in turn, each making promises and then rescinding them. When the United States’ turn came, the emerging superpower didn’t rush to embrace the Jews. They were alone during the 1930s, when the gates of the United States were closed to them. They were alone during the Holocaust, when the United States awoke too late. They were alone in 1948, when the United States placed Israel under an arms embargo, and in 1967, when a U.S. president explicitly told the Israelis that if they went to war, they would be alone.

After 1967, Israel nestled in the Pax Americana. The subsequent decades of the “special relationship” have so deepened Israel’s dependence on the United States in the military realm that many Israelis can no longer remember how Israel managed to survive without all that U.S. hardware. Israel’s own armies

of supporters in the United States, especially in the Jewish community, reinforce this mindset as they assure themselves that were it not for their lobbying efforts in Washington, Israel would be in mortal peril.

But the Obama administration has given Israelis a preview of just how the unshakable bond is likely to be shaken. This prospect might seem alarming to Israel's supporters, but the inevitable turn of the wheel was precisely the reason Zionist Jews sought sovereign independence in the first place. An independent Israel is a guarantee against the day when the Jews will again find themselves alone, and it is an operating premise of Israeli strategic thought that such a day will come.

ISRAEL ALONE

This conviction, far from paralyzing Israel, propels it to expand its options, diversify its relationships, and build its independent capabilities. The Middle East of the next 50 years will be different from that of the last 100. There will be no hegemony-seeking outside powers. The costs of pursuing full-spectrum dominance are too high; the rewards are too few. Outside powers will pursue specific goals, related to oil or terrorism. But large swaths of the Middle East will be left to their fate, to dissolve and re-form in unpredictable ways. Israel may be asked by weaker neighbors to extend its security net to include them, as it has done for decades for Jordan. Arab concern about Iran is already doing more to normalize Israel in the region than the ever-elusive and ever-inconclusive peace process. Israel, once the fulcrum of regional conflict, will loom like a pillar of regional

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stability—not only for its own people but also for its neighbors, threatened by a rising tide of political fragmentation, economic contraction, radical Islam, and sectarian hatred.

So Israel is planning to outlast the United States in the Middle East. Israelis roll their eyes when the United States insinuates that it best understands Israel's genuine long-term interests, which Israel is supposedly too traumatized or confused to discern. Although Israel has made plenty of tactical mistakes, it is hard to argue that its strategy has been anything but a success. And given the wobbly record of the United States in achieving or even defining its interests in the Middle East, it is hard to say the same about U.S. strategy. The Obama administration has placed its bet on the Iran deal, but even the deal's most ardent advocates no longer claim to see the "arc of history" in the Middle East. In the face of the collapse of the Arab Spring, the Syrian dead, the millions of refugees, and the rise of the Islamic State, or ISIS, who can say in which direction the arc points? Or where the Iran deal will lead?

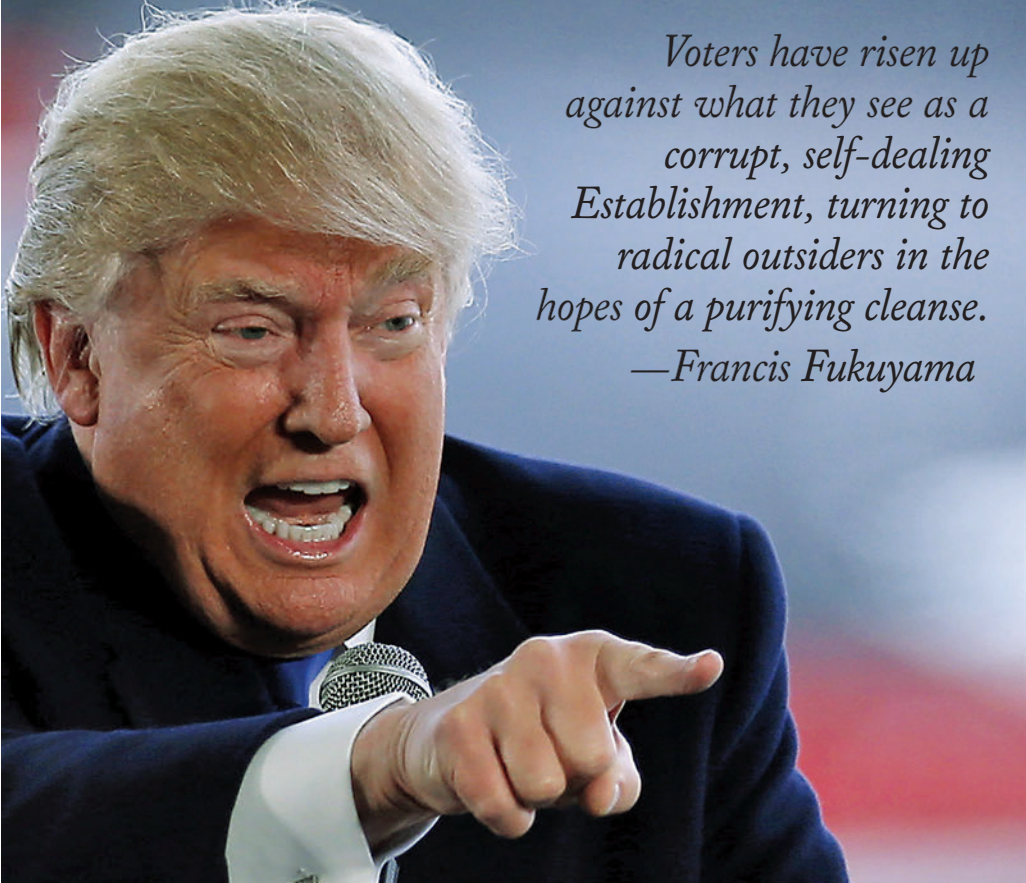
One other common American mantra deserves to be shelved. "Precisely because of our friendship," said Obama five years ago, "it is important that we tell the truth: the status quo is unsustainable, and Israel too must act boldly to advance a lasting peace." It is time for the United States to abandon this mantra, or at least modify it. Only if Israel's adversaries conclude that Israel can sustain the status quo indefinitely—Israel's military supremacy, its economic advantage, and, yes, its occupation—is there any hope that they will reconcile themselves to Israel's existence as a Jewish state. Statements like Obama's

don't sway Israel's government, which knows better, but they do fuel Arab and Iranian rejection of Israel among those who believe that the United States no longer has Israel's back. For Israel's enemies, drawing the conclusion that Israel is thus weak would be a tragic mistake: Israel is well positioned to sustain the status quo all by itself. Its long-term strategy is predicated on it.

A new U.S. administration will offer an opportunity to revisit U.S. policy, or at least U.S. rhetoric. One of the candidates, Hillary Clinton, made a statement as secretary of state in Jerusalem in 2010 that came closer to reality and practicality. "The status quo is unsustainable," she said, echoing the usual line. But she added this: "Now, that doesn't mean that it can't be sustained for a year or a decade, or two or three, but fundamentally, the status quo is unsustainable." Translation: the status quo may not be optimal, but it is sustainable, for as long as it takes.

As the United States steps back from the Middle East, this is the message Washington should send if it wants to assist Israel and other U.S. allies in filling the vacuum it will leave behind. 🌐

ESSAYS



*Voters have risen up
against what they see as a
corrupt, self-dealing
Establishment, turning to
radical outsiders in the
hopes of a purifying cleanse.
—Francis Fukuyama*

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American Political Decay or Renewal?

The Meaning of the 2016 Election

Francis Fukuyama

Two years ago, I argued in these pages that America was suffering from political decay. The country's constitutional system of checks and balances, combined with partisan polarization and the rise of well-financed interest groups, had combined to yield what I labeled "vetocracy," a situation in which it was easier to stop government from doing things than it was to use government to promote the common good. Recurrent budgetary crises, stagnating bureaucracy, and a lack of policy innovation were the hallmarks of a political system in disarray.

On the surface, the 2016 presidential election seems to be bearing out this analysis. The once proud Republican Party lost control of its nominating process to Donald Trump's hostile takeover and is riven with deep internal contradictions. On the Democratic side, meanwhile, the ultra-insider Hillary Clinton has faced surprisingly strong competition from Bernie Sanders, a 74-year-old self-proclaimed democratic socialist. Whatever the issue—from immigration to financial reform to trade to stagnating incomes—large numbers of voters on both sides of the spectrum have risen up against what they see as a corrupt, self-dealing Establishment, turning to radical outsiders in the hopes of a purifying cleanse.

In fact, however, the turbulent campaign has shown that American democracy is in some ways in better working order than expected. Whatever one might think of their choices, voters have flocked to the polls in state after state and wrested control of the political narrative

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from organized interest groups and oligarchs. Jeb Bush, the son and brother of presidents who once seemed the inevitable Republican choice, ignominiously withdrew from the race in February after having blown through more than \$130 million (together with his super PAC). Sanders, meanwhile, limiting himself to small donations and pledging to disempower the financial elite that supports his opponent, has raised even more than Bush and nipped at Clinton's heels throughout.

The real story of this election is that after several decades, American democracy is finally responding to the rise of inequality and the economic stagnation experienced by most of the population. Social class is now back at the heart of American politics, trumping other cleavages—race, ethnicity, gender, sexual orientation, geography—that had dominated discussion in recent elections.

The gap between the fortunes of elites and those of the rest of the public has been growing for two generations, but only now is it coming to dominate national politics. What really needs to be explained is not why populists have been able to make such gains this cycle but why it took them so long to do so. Moreover, although it is good to know that the U.S. political system is less ossified and less in thrall to monied elites than many assumed, the nostrums being hawked by the populist crusaders are nearly entirely unhelpful, and if embraced, they would stifle growth, exacerbate malaise, and make the situation worse rather than better. So now that the elites have been shocked out of their smug complacency, the time has come for them to devise more workable solutions to the problems they can no longer deny or ignore.

THE SOCIAL BASIS OF POPULISM

In recent years, it has become ever harder to deny that incomes have been stagnating for most U.S. citizens even as elites have done better than ever, generating rising inequality throughout American society. Certain basic facts, such as the enormously increased share of national wealth taken by the top one percent, and indeed the top 0.1 percent, are increasingly uncontested. What is new this political cycle is that attention has started to turn from the excesses of the oligarchy to the straitened circumstances of those left behind.

Two recent books—Charles Murray's *Coming Apart* and Robert Putnam's *Our Kids*—lay out the new social reality in painful detail.

Murray and Putnam are at opposite ends of the political spectrum, one a libertarian conservative and the other a mainstream liberal, yet the data they report are virtually identical. Working-class incomes have declined over the past generation, most dramatically for white men with a high school education or less. For this group, Trump's slogan, "Make America Great Again!" has real meaning. But the pathologies they suffer from go much deeper and are revealed in data on crime, drug use, and single-parent families.

Back in the 1980s, there was a broad national conversation about the emergence of an African American underclass—that is, a mass of underemployed and underskilled people whose poverty seemed self-replicating because it led to broken families that were unable to transmit the kinds of social norms and behaviors required to compete in the job market. Today, the white working class is in virtually the same position as the black underclass was back then.

During the run-up to the primary in New Hampshire—a state that is about as white and rural as any in the country—many Americans were likely surprised to learn that voters' most important concern there was heroin addiction. In fact, opioid and methamphetamine addiction have become as epidemic in rural white communities in states such as Indiana and Kentucky as crack was in the inner city a generation ago. A recent paper by the economists Anne Case and Angus Deaton showed that the death rates for white non-Hispanic middle-aged men in the United States rose between 1999 and 2013, even as they fell for virtually every other population group and in every other rich country. The causes of this increase appear to have been suicide, drugs, and alcohol—nearly half a million excess deaths over what would have been expected. And crime rates for this group have skyrocketed as well.

This increasingly bleak reality, however, scarcely registered with American elites—not least because over the same period, they themselves were doing quite well. People with at least a college education have seen their fortunes rise over the decades. Rates of divorce and single-parent families have decreased among this group, neighborhood crime has fallen steadily, cities have been reclaimed for young urbanites, and technologies such as the Internet and social media have powered social trust and new forms of community engagement. For this group, helicopter parents are a bigger problem than latchkey children.



THE FAILURE OF POLITICS

Given the enormity of the social shift that has occurred, the real question is not why the United States has populism in 2016 but why the explosion did not occur much earlier. And here there has indeed been a problem of representation in American institutions: neither political party has served the declining group well.

In recent decades, the Republican Party has been an uneasy coalition of business elites and social conservatives, the former providing money, and the latter primary votes. The business elites, represented by the editorial page of *The Wall Street Journal*, have been principled advocates of economic liberalism: free markets, free trade, and open immigration. It was Republicans who provided the votes to pass trade legislation such as the North American Free Trade Agreement and the recent trade promotion authority (more commonly known as “fast track”). Their business backers clearly benefit from both the import of foreign labor, skilled and unskilled, and a global trading system that allows them to export and invest around the globe. Re-

publicans pushed for the dismantling of the Depression-era system of bank regulation that laid the groundwork for the subprime meltdown and the resulting financial crisis of 2008. And they have been ideologically committed to cutting taxes on wealthy Americans, undermining the power of labor unions, and reducing social services that stood to benefit the less well-off.

This agenda ran directly counter to the interests of the working class. The causes of the working class' decline are complex, having to do as much with technological change as with factors touched by public policy. And yet it is undeniable that the pro-market shift promoted by Republican elites in recent decades has exerted

American democracy is finally responding to the economic stagnation of most of the population.

downward pressure on working-class incomes, both by exposing workers to more ruthless technological and global competition and by paring back various protections and social benefits left over from the New Deal. (Countries such as Germany and the Netherlands, which have done more to protect their

workers, have not seen comparable increases in inequality.) It should not be surprising, therefore, that the biggest and most emotional fight this year is the one taking place within the Republican Party, as its working-class base expresses a clear preference for more nationalist economic policies.

The Democrats, for their part, have traditionally seen themselves as champions of the common man and can still count on a shrinking base of trade union members to help get out the vote. But they have also failed this constituency. Since the rise of Bill Clinton's "third way," elites in the Democratic Party have embraced the post-Reagan consensus on the benefits of free trade and immigration. They were complicit in the dismantling of bank regulation in the 1990s and have tried to buy off, rather than support, the labor movement over its objections to trade agreements.

But the more important problem with the Democrats is that the party has embraced identity politics as its core value. The party has won recent elections by mobilizing a coalition of population segments: women, African Americans, young urbanites, gays, and environmentalists. The one group it has completely lost touch with is the same white working class that was the bedrock of Franklin Roosevelt's

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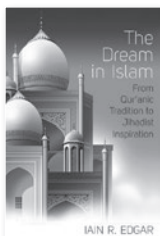
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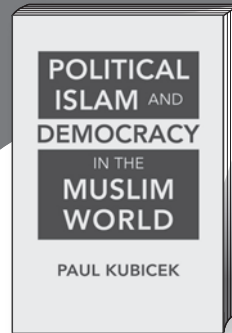
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New Deal coalition. The white working class began voting Republican in the 1980s over cultural issues such as patriotism, gun rights, abortion, and religion. Clinton won back enough of them in the 1990s to be elected twice (with pluralities each time), but since then, they have been a more reliable constituency for the Republican Party, despite the fact that elite Republican economic policies are at odds with their economic interests. This is why, in a Quinnipiac University survey released in April, 80 percent of Trump's supporters polled said they felt that "the government has gone too far in assisting minority groups," and 85 percent agreed that "America has lost its identity."

The Democrats' fixation with identity explains one of the great mysteries of contemporary American politics—why rural working-class whites, particularly in southern states with limited social services, have flocked to the banner of the Republicans even though they have been among the greatest beneficiaries of Republican-opposed programs, such as Barack Obama's Affordable Care Act. One reason is their perception that Obamacare was designed to benefit people other than themselves—in part because Democrats have lost their ability to speak to such voters (in contrast to in the 1930s, when southern rural whites were key supporters of Democratic Party welfare state initiatives such as the Tennessee Valley Authority).

THE END OF AN ERA?

Trump's policy pronouncements are confused and contradictory, coming as they do from a narcissistic media manipulator with no clear underlying ideology. But the common theme that has made him attractive to so many Republican primary voters is one that he shares to some extent with Sanders: an economic nationalist agenda designed to protect and restore the jobs of American workers. This explains both his opposition to immigration—not just illegal immigration but also skilled workers coming in on H1B visas—and his condemnation of American companies that move plants abroad to save on labor costs. He has criticized not only China for its currency manipulation but also friendly countries such as Japan and South Korea for undermining the United States' manufacturing base. And of course he is dead set against further trade liberalization, such as the Trans-Pacific Partnership in Asia and the Transatlantic Trade and Investment Partnership with Europe.

The American political system will not be fixed unless popular anger is linked to good policies.

All of this sounds like total heresy to anyone who has taken a basic college-level course in trade theory, where models from the Ricardian one of comparative advantage to the Heckscher-Ohlin factor endowment theory tell you that free trade is a win-win for trading partners, increasing all countries' aggregate incomes. And indeed, global output has exploded over the past two generations, as world trade and investment have been liberalized under the broad framework of the General Agreement on Tariffs and Trade and then the World Trade Organization, increasing fourfold between 1970 and 2008. Globalization has been responsible for lifting hundreds of millions of people out of poverty in countries such as China and India and has generated unfathomable amounts of wealth in the United States.

Yet this consensus on the benefits of economic liberalization, shared by elites in both political parties, is not immune from criticism. Built into all the existing trade models is the conclusion that trade liberalization, while boosting aggregate income, will have potentially adverse distributional consequences—it will, in other words, create winners and losers. One recent study estimated that import competition from China was responsible for the loss of between two million and 2.4 million U.S. jobs from 1999 to 2011.

The standard response from trade economists is to argue that the gains from trade are sufficient to more than adequately compensate the losers, ideally through job training that will equip them with new skills. And thus, every major piece of trade legislation has been accompanied by a host of worker-retraining measures, as well as a phasing in of new rules to allow workers time to adjust.

In practice, however, this adjustment has often failed to materialize. The U.S. government has run 47 uncoordinated federal job-retraining programs (since consolidated into about a dozen), in addition to countless state-level ones. These have collectively failed to move large numbers of workers into higher-skilled positions. This is partly a failure of implementation, but it is also a failure of concept: it is not clear what kind of training can transform a 55-year-old assembly-line worker into a computer programmer or a Web designer. Nor does standard trade theory take account of the political economy of investment. Capital has always had collective-action advantages over

labor, because it is more concentrated and easier to coordinate. This was one of the early arguments in favor of trade unionism, which has been severely eroded in the United States since the 1980s. And capital's advantages only increase with the high degree of capital mobility that has arisen in today's globalized world. Labor has become more mobile as well, but it is far more constrained. The bargaining advantages of unions are quickly undermined by employers who can threaten to relocate not just to a right-to-work state but also to a completely different country.

Labor-cost differentials between the United States and many developing countries are so great that it is hard to imagine what sorts of policies could ultimately have protected the mass of low-skilled jobs. Perhaps not even Trump believes that shoes and shirts should still be made in America. Every industrialized nation in the world, including those that are much more committed to protecting their manufacturing bases, such as Germany and Japan, has seen a decline in the relative share of manufacturing over the past few decades. And even China itself is beginning to lose jobs to automation and to lower-cost producers in places such as Bangladesh and Vietnam.

And yet the experience of a country such as Germany suggests that the path followed by the United States was not inevitable. German business elites never sought to undermine the power of their trade unions; to this day, wages are set across the German economy through government-sponsored negotiations between employers and unions. As a result, German labor costs are about 25 percent higher than their American counterparts. And yet Germany remains the third-largest exporter in the world, and the share of manufacturing employment in Germany, although declining, has remained consistently higher than that in the United States. Unlike the French and the Italians, the Germans have not sought to protect existing jobs through a thicket of labor laws; under Chancellor Gerhard Schröder's Agenda 2010 reforms, it became easier to lay off redundant workers. And yet the country has invested heavily in improving working-class skills through its apprenticeship program and other active labor-market interventions. The Germans also sought to protect more of the country's supply chain from endless outsourcing, connecting its fabled *Mittelstand*, that is, its small and medium-size businesses, to its large employers.

In the United States, in contrast, economists and public intellectuals portrayed the shift from a manufacturing economy to a postindustrial

service-based one as inevitable, even something to be welcomed and hastened. Like the buggy whip makers of old, supposedly, manufacturing workers would retool themselves, becoming knowledge workers in a flexible, outsourced, part-time new economy, where their new skills would earn them higher wages. Despite occasional gestures, however, neither political party took the retooling agenda seriously, as the centerpiece of a necessary adjustment process, nor did they invest in social programs designed to cushion the working class as it tried to adjust. And so white workers, like African Americans in earlier decades, were on their own.

The first decade of the century could have played out very differently. The Chinese today are not manipulating their currency to boost exports; if anything, they have been trying recently to support the value of the yuan in order to prevent capital flight. But they certainly did manipulate their currency in the years following the Asian financial crisis of 1997–98 and the dot-com crash of 2000–2001. It would have been entirely feasible for Washington to have threatened, or actually imposed, tariffs against Chinese imports back then in response. This would have entailed risks: consumer prices would have increased, and interest rates would have risen had the Chinese responded by not buying U.S. debt. Yet this possibility was not taken seriously by U.S. elites, for fear that it would start a slide down the slippery slope of protectionism. As a result, more than two million jobs were lost in the ensuing decade.

A WAY FORWARD?

Trump may have fastened onto something real in American society, but he is a singularly inappropriate instrument for taking advantage of the reform moment that this electoral upheaval represents. You cannot unwind 50 years of trade liberalization by imposing unilateral tariffs or filing criminal indictments against American multinationals that outsource jobs. At this point, the United States' economy is so interconnected with that of the rest of the world that the dangers of a global retreat into protectionism are all too real. Trump's proposals to abolish Obamacare would throw millions of working-class Americans off health insurance, and his proposed tax cuts would add more than \$10 trillion to the deficit over the next decade while benefiting only the rich. The country does need strong leadership, but by an institutional reformer who can make government truly effective, not by a personalistic demagogue who is willing to flout established rules.

Nonetheless, if elites profess to be genuinely concerned about inequality and the declining working class, they need to rethink some of their long-standing positions on immigration, trade, and investment. The intellectual challenge is to see whether it is possible to back away from globalization without cratering both the national and the global economy, with the goal of trading a little aggregate national income for greater domestic income equality.

Clearly, some changes are more workable than others, with immigration being at the top of the theoretically doable list. Comprehensive immigration reform has been in the works for more than a decade now and has failed for two reasons. First, opponents are opposed to “amnesty,” that is, giving existing undocumented immigrants a path to citizenship. But the second reason has to do with enforcement: critics point out that existing laws are not enforced and that earlier promises to enforce them have not been kept.

The idea that the government could deport 11 million people from the country, many of them with children who are U.S. citizens, seems highly implausible. So some form of amnesty appears inevitable. Immigration critics are right, however, that the United States has been very lax in enforcement. Doing this properly would require not a wall but something like a national biometric ID card, heavy investment in courts and police, and, above all, the political will to sanction employers who violate the rules. Moving to a much more restrictive policy on legal immigration, in which some form of amnesty for existing immigrants is exchanged for genuine efforts to enforce new and tougher rules, would not be economically disastrous. When the country did this before, in 1924, the way was paved, in certain respects, for the golden age of U.S. equality in the 1940s and 1950s.

It is harder to see a way forward on trade and investment, other than not ratifying existing deals such as the Trans-Pacific Partnership—which would not be extremely risky. The world is increasingly populated with economic nationalists, and a course reversal by Washington—which has built and sustained the current liberal international system—could well trigger a tidal wave of reprisals. Perhaps one place to start is to figure out a way to persuade U.S. multinationals, which currently are sitting on more than \$2 trillion in cash outside the United States, to bring their money home for domestic investment. U.S. corporate tax rates are among the highest in the Organization for Economic Cooperation and Development; reducing them sharply while eliminating the myriad

tax subsidies and exemptions that corporations have negotiated for themselves is a policy that could find support in both parties.

Another initiative would be a massive campaign to rebuild American infrastructure. The American Society of Civil Engineers estimates that it would take \$3.6 trillion to adequately upgrade the country's infrastructure by 2020. The United States could borrow \$1 trillion while interest rates are low and use it to fund a massive infrastructure initiative that would create huge numbers of jobs while raising U.S. productivity in the long run. Hillary Clinton has proposed spending \$275 billion, but that number is too modest.

But attempts to accomplish either goal would bump into the more routine dysfunctions of the American political system, where vetocracy prevents either tax reform or infrastructure investment. The American system makes it too easy for well-organized interest groups to block legislation and to "capture" new initiatives for their own purposes. So fixing the system to reduce veto points and streamline decision-making would have to be part of the reform agenda itself. Necessary changes should include eliminating both senatorial holds and the routine use of the filibuster and delegating budgeting and the formulation of complex legislation to smaller, more expert groups that can present coherent packages to Congress for up-or-down votes.

This is why the unexpected emergence of Trump and Sanders may signal a big opportunity. For all his faults, Trump has broken with the Republican orthodoxy that has prevailed since Ronald Reagan, a low-tax, small-safety-net orthodoxy that benefits corporations much more than their workers. Sanders similarly has mobilized the backlash from the left that has been so conspicuously missing since 2008.

"Populism" is the label that political elites attach to policies supported by ordinary citizens that they don't like. There is of course no reason why democratic voters should always choose wisely, particularly in an age when globalization makes policy choices so complex. But elites don't always choose correctly either, and their dismissal of the popular choice often masks the nakedness of their own positions. Popular mobilizations are neither inherently bad nor inherently good; they can do great things, as during the Progressive era and the New Deal, but also terrible ones, as in Europe during the 1930s. The American political system has in fact suffered from substantial decay, and it will not be fixed unless popular anger is linked to wise leadership and good policies. It is still not too late for this to emerge. 🌐

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The Case for Offshore Balancing

A Superior U.S. Grand Strategy

John J. Mearsheimer and Stephen M. Walt

For the first time in recent memory, large numbers of Americans are openly questioning their country's grand strategy. An April 2016 Pew poll found that 57 percent of Americans agree that the United States should "deal with its own problems and let others deal with theirs the best they can." On the campaign trail, both the Democrat Bernie Sanders and the Republican Donald Trump found receptive audiences whenever they questioned the United States' penchant for promoting democracy, subsidizing allies' defense, and intervening militarily—leaving only the likely Democratic nominee Hillary Clinton to defend the status quo.

Americans' distaste for the prevailing grand strategy should come as no surprise, given its abysmal record over the past quarter century. In Asia, India, Pakistan, and North Korea are expanding their nuclear arsenals, and China is challenging the status quo in regional waters. In Europe, Russia has annexed Crimea, and U.S. relations with Moscow have sunk to new lows since the Cold War. U.S. forces are still fighting in Afghanistan and Iraq, with no victory in sight. Despite losing most of its original leaders, al Qaeda has metastasized across the region. The Arab world has fallen into turmoil—in good part due to the United States' decisions to effect regime change in Iraq and Libya and its modest efforts to do the same in Syria—and the Islamic State, or ISIS, has emerged out of the chaos. Repeated U.S. attempts to broker Israeli-Palestinian peace have failed, leaving a two-state solution further

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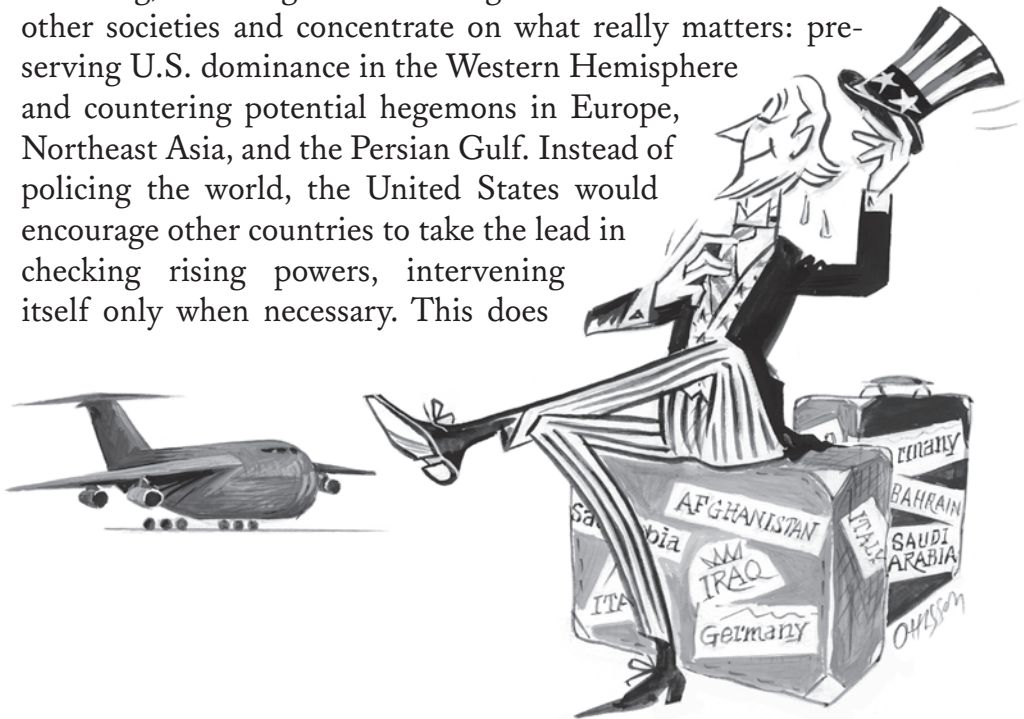
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away than ever. Meanwhile, democracy has been in retreat worldwide, and the United States' use of torture, targeted killings, and other morally dubious practices has tarnished its image as a defender of human rights and international law.

The United States does not bear sole responsibility for all these costly debacles, but it has had a hand in most of them. The setbacks are the natural consequence of the misguided grand strategy of liberal hegemony that Democrats and Republicans have pursued for years. This approach holds that the United States must use its power not only to solve global problems but also to promote a world order based on international institutions, representative governments, open markets, and respect for human rights. As “the indispensable nation,” the logic goes, the United States has the right, responsibility, and wisdom to manage local politics almost everywhere. At its core, liberal hegemony is a revisionist grand strategy: instead of calling on the United States to merely uphold the balance of power in key regions, it commits American might to promoting democracy everywhere and defending human rights whenever they are threatened.

There is a better way. By pursuing a strategy of “offshore balancing,” Washington would forgo ambitious efforts to remake other societies and concentrate on what really matters: preserving U.S. dominance in the Western Hemisphere and countering potential hegemonies in Europe, Northeast Asia, and the Persian Gulf. Instead of policing the world, the United States would encourage other countries to take the lead in checking rising powers, intervening itself only when necessary. This does



not mean abandoning the United States' position as the world's sole superpower or retreating to "Fortress America." Rather, by husbanding U.S. strength, offshore balancing would preserve U.S. primacy far into the future and safeguard liberty at home.

SETTING THE RIGHT GOALS

The United States is the luckiest great power in modern history. Other leading states have had to live with threatening adversaries in their own backyards—even the United Kingdom faced the prospect of an invasion from across the English Channel on several occasions—but for more than two centuries, the United States has not. Nor do distant powers pose much of a threat, because two giant oceans are in the way. As Jean-Jules Jusserand, the French ambassador to the United States from 1902 to 1924, once put it, "On the north, she has a weak neighbor; on the south, another weak neighbor; on the east, fish, and the west, fish." Furthermore, the United States boasts an abundance of land and natural resources and a large and energetic population, which have enabled it to develop the world's biggest economy and most capable military. It also has thousands of nuclear weapons, which makes an attack on the American homeland even less likely.

These geopolitical blessings give the United States enormous latitude for error; indeed, only a country as secure as it would have the temerity to try to remake the world in its own image. But they also allow it to remain powerful and secure without pursuing a costly and expansive grand strategy. Offshore balancing would do just that. Its principal concern would be to keep the United States as powerful as possible—ideally, the dominant state on the planet. Above all, that means maintaining hegemony in the Western Hemisphere.

Unlike isolationists, however, offshore balancers believe that there are regions outside the Western Hemisphere that are worth expending American blood and treasure to defend. Today, three other areas matter to the United States: Europe, Northeast Asia, and the Persian Gulf. The first two are key centers of industrial power and home to the world's other great powers, and the third produces roughly 30 percent of the world's oil.

In Europe and Northeast Asia, the chief concern is the rise of a regional hegemon that would dominate its region, much as the United States dominates the Western Hemisphere. Such a state would have abundant economic clout, the ability to develop sophisticated weaponry,

the potential to project power around the globe, and perhaps even the wherewithal to outspend the United States in an arms race. Such a state might even ally with countries in the Western Hemisphere and interfere close to U.S. soil. Thus, the United States' principal aim in Europe and Northeast Asia should be to maintain the regional balance of power so that the most powerful state in each region—for now, Russia and China, respectively—remains too worried about its neighbors to roam into the Western Hemisphere. In the Gulf, meanwhile, the United States has an interest in blocking the rise of a hegemon that could interfere with the flow of oil from that region, thereby damaging the world economy and threatening U.S. prosperity.

Offshore balancing is a realist grand strategy, and its aims are limited. Promoting peace, although desirable, is not among them. This is not to say that Washington should welcome conflict anywhere in the world, or that it cannot use diplomatic or economic means to discourage war. But it should not commit U.S. military forces for that purpose alone. Nor is it a goal of offshore balancing to halt genocides, such as the one that befell Rwanda in 1994. Adopting this strategy would not preclude such operations, however, provided the need is clear, the mission is feasible, and U.S. leaders are confident that intervention will not make matters worse.

HOW WOULD IT WORK?

Under offshore balancing, the United States would calibrate its military posture according to the distribution of power in the three key regions. If there is no potential hegemon in sight in Europe, Northeast Asia, or the Gulf, then there is no reason to deploy ground or air forces there and little need for a large military establishment at home. And because it takes many years for any country to acquire the capacity to dominate its region, Washington would see it coming and have time to respond.

In that event, the United States should turn to regional forces as the first line of defense, letting them uphold the balance of power in their own neighborhood. Although Washington could provide assistance to allies and pledge to support them if they were in danger of being conquered, it should refrain from deploying large numbers of U.S. forces abroad. It may occasionally make sense to keep certain assets overseas, such as small military contingents, intelligence-gathering facilities, or prepositioned equipment, but in general, Washington

should pass the buck to regional powers, as they have a far greater interest in preventing any state from dominating them.

If those powers cannot contain a potential hegemon on their own, however, the United States must help get the job done, deploying enough firepower to the region to shift the balance in its favor. Sometimes, that may mean sending in forces before war breaks out.

By husbanding U.S. strength, an offshore-balancing strategy would preserve U.S. primacy far into the future.

During the Cold War, for example, the United States kept large numbers of ground and air forces in Europe out of the belief that Western European countries could not contain the Soviet Union on their own. At other times, the United States might wait to intervene after a war starts, if one side seems likely to emerge as a regional hegemon.

Such was the case during both world wars: the United States came in only after Germany seemed likely to dominate Europe.

In essence, the aim is to remain offshore as long as possible, while recognizing that it is sometimes necessary to come onshore. If that happens, however, the United States should make its allies do as much of the heavy lifting as possible and remove its own forces as soon as it can.

Offshore balancing has many virtues. By limiting the areas the U.S. military was committed to defending and forcing other states to pull their own weight, it would reduce the resources Washington must devote to defense, allow for greater investment and consumption at home, and put fewer American lives in harm's way. Today, allies routinely free-ride on American protection, a problem that has only grown since the Cold War ended. Within NATO, for example, the United States accounts for 46 percent of the alliance's aggregate GDP yet contributes about 75 percent of its military spending. As the political scientist Barry Posen has quipped, "This is welfare for the rich."

Offshore balancing would also reduce the risk of terrorism. Liberal hegemony commits the United States to spreading democracy in unfamiliar places, which sometimes requires military occupation and always involves interfering with local political arrangements. Such efforts invariably foster nationalist resentment, and because the opponents are too weak to confront the United States directly, they

sometimes turn to terrorism. (It is worth remembering that Osama bin Laden was motivated in good part by the presence of U.S. troops in his homeland of Saudi Arabia.) In addition to inspiring terrorists, liberal hegemony facilitates their operations: using regime change to spread American values undermines local institutions and creates ungoverned spaces where violent extremists can flourish.

Offshore balancing would alleviate this problem by eschewing social engineering and minimizing the United States' military footprint. U.S. troops would be stationed on foreign soil only when a country was in a vital region and threatened by a would-be hegemon. In that case, the potential victim would view the United States as a savior rather than an occupier. And once the threat had been dealt with, U.S. military forces could go back over the horizon and not stay behind to meddle in local politics. By respecting the sovereignty of other states, offshore balancing would be less likely to foster anti-American terrorism.

A REASSURING HISTORY

Offshore balancing may seem like a radical strategy today, but it provided the guiding logic of U.S. foreign policy for many decades and served the country well. During the nineteenth century, the United States was preoccupied with expanding across North America, building a powerful state, and establishing hegemony in the Western Hemisphere. After it completed these tasks at the end of the century, it soon became interested in preserving the balance of power in Europe and Northeast Asia. Nonetheless, it let the great powers in those regions check one another, intervening militarily only when the balance of power broke down, as during both world wars.

During the Cold War, the United States had no choice but to go onshore in Europe and Northeast Asia, as its allies in those regions could not contain the Soviet Union by themselves. So Washington forged alliances and stationed military forces in both regions, and it fought the Korean War to contain Soviet influence in Northeast Asia.

In the Persian Gulf, however, the United States stayed offshore, letting the United Kingdom take the lead in preventing any state from dominating that oil-rich region. After the British announced their withdrawal from the Gulf in 1968, the United States turned to the shah of Iran and the Saudi monarchy to do the job. When the shah

fell in 1979, the Carter administration began building the Rapid Deployment Force, an offshore military capability designed to prevent Iran or the Soviet Union from dominating the region. The Reagan administration aided Iraq during that country's 1980–88 war with Iran for similar reasons. The U.S. military stayed offshore until 1990, when Saddam Hussein's seizure of Kuwait threatened to enhance

The aim is to remain offshore as long as possible, while recognizing that it is sometimes necessary to come onshore.

Iraq's power and place Saudi Arabia and other Gulf oil producers at risk. To restore the regional balance of power, the George H. W. Bush administration sent an expeditionary force to liberate Kuwait and smash Saddam's military machine.

For nearly a century, in short, offshore balancing prevented the emergence of dangerous regional hegemony and preserved a global balance of power that enhanced American security. Tellingly, when U.S. policymakers deviated from that strategy—as they did in Vietnam, where the United States had no vital interests—the result was a costly failure.

Events since the end of the Cold War teach the same lesson. In Europe, once the Soviet Union collapsed, the region no longer had a dominant power. The United States should have steadily reduced its military presence, cultivated amicable relations with Russia, and turned European security over to the Europeans. Instead, it expanded NATO and ignored Russian interests, helping spark the conflict over Ukraine and driving Moscow closer to China.

In the Middle East, likewise, the United States should have moved back offshore after the Gulf War and let Iran and Iraq balance each other. Instead, the Clinton administration adopted the policy of “dual containment,” which required keeping ground and air forces in Saudi Arabia to check Iran and Iraq simultaneously. The George W. Bush administration then adopted an even more ambitious strategy, dubbed “regional transformation,” which produced costly failures in Afghanistan and Iraq. The Obama administration repeated the error when it helped topple Muammar al-Qaddafi in Libya and when it exacerbated the chaos in Syria by insisting that Bashar al-Assad “must go” and backing some of his opponents. Abandoning offshore balancing after the Cold War has been a recipe for failure.

HEGEMONY'S HOLLOW HOPES

Defenders of liberal hegemony marshal a number of unpersuasive arguments to make their case. One familiar claim is that only vigorous U.S. leadership can keep order around the globe. But global leadership is not an end in itself; it is desirable only insofar as it benefits the United States directly.

One might further argue that U.S. leadership is necessary to overcome the collective-action problem of local actors failing to balance against a potential hegemon. Offshore balancing recognizes this danger, however, and calls for Washington to step in if needed. Nor does it prohibit Washington from giving friendly states in the key regions advice or material aid.

Other defenders of liberal hegemony argue that U.S. leadership is necessary to deal with new, transnational threats that arise from failed states, terrorism, criminal networks, refugee flows, and the like. Not only do the Atlantic and Pacific Oceans offer inadequate protection against these dangers, they claim, but modern military technology also makes it easier for the United States to project power around the world and address them. Today's "global village," in short, is more dangerous yet easier to manage.

This view exaggerates these threats and overstates Washington's ability to eliminate them. Crime, terrorism, and similar problems can be a nuisance, but they are hardly existential threats and rarely lend themselves to military solutions. Indeed, constant interference in the affairs of other states—and especially repeated military interventions—generates local resentment and fosters corruption, thereby making these transnational dangers worse. The long-term solution to the problems can only be competent local governance, not heavy-handed U.S. efforts to police the world.

Nor is policing the world as cheap as defenders of liberal hegemony contend, either in dollars spent or in lives lost. The wars in Afghanistan and Iraq cost between \$4 trillion and \$6 trillion and killed nearly 7,000 U.S. soldiers and wounded more than 50,000. Veterans of these conflicts exhibit high rates of depression and suicide, yet the United States has little to show for their sacrifices.

Defenders of the status quo also fear that offshore balancing would allow other states to replace the United States at the pinnacle of global power. On the contrary, the strategy would prolong the country's dominance by refocusing its efforts on core goals. Unlike liberal hegemony,

offshore balancing avoids squandering resources on costly and counterproductive crusades, which would allow the government to invest more in the long-term ingredients of power and prosperity: education, infrastructure, and research and development. Remember, the United States became a great power by staying out of foreign wars and building a world-class economy, which is the same strategy China has pursued over the past three decades. Meanwhile, the United States has wasted trillions of dollars and put its long-term primacy at risk.

Another argument holds that the U.S. military must garrison the world to keep the peace and preserve an open world economy. Retrenchment, the logic goes, would renew great-power competition, invite ruinous economic rivalries, and eventually spark a major war from which the United States could not remain aloof. Better to keep playing global policeman than risk a repeat of the 1930s.

Such fears are unconvincing. For starters, this argument assumes that deeper U.S. engagement in Europe would have prevented World

Offshore balancing may seem like a radical strategy today, but it provided the guiding logic of U.S. foreign policy for many decades.

War II, a claim hard to square with Adolf Hitler's unshakable desire for war. Regional conflicts will sometimes occur no matter what Washington does, but it need not get involved unless vital U.S. interests are at stake. Indeed, the United States has sometimes stayed out of regional conflicts—such as the Russo-Japanese War, the Iran-Iraq

War, and the current war in Ukraine—belying the claim that it inevitably gets dragged in. And if the country is forced to fight another great power, better to arrive late and let other countries bear the brunt of the costs. As the last major power to enter both world wars, the United States emerged stronger from each for having waited.

Furthermore, recent history casts doubt on the claim that U.S. leadership preserves peace. Over the past 25 years, Washington has caused or supported several wars in the Middle East and fueled minor conflicts elsewhere. If liberal hegemony is supposed to enhance global stability, it has done a poor job.

Nor has the strategy produced much in the way of economic benefits. Given its protected position in the Western Hemisphere, the United States is free to trade and invest wherever profitable opportunities exist. Because all countries have a shared interest in such activity,

Washington does not need to play global policeman in order to remain economically engaged with others. In fact, the U.S. economy would be in better shape today if the government were not spending so much money trying to run the world.

Proponents of liberal hegemony also claim that the United States must remain committed all over the world to prevent nuclear proliferation. If it reduces its role in key regions or withdraws entirely, the argument runs, countries accustomed to U.S. protection will have no choice but to protect themselves by obtaining nuclear weapons.

No grand strategy is likely to prove wholly successful at preventing proliferation, but offshore balancing would do a better job than liberal hegemony. After all, that strategy failed to stop India and Pakistan from ramping up their nuclear capabilities, North Korea from becoming the newest member of the nuclear club, and Iran from making major progress with its nuclear program. Countries usually seek the bomb because they fear being attacked, and U.S. efforts at regime change only heighten such concerns. By eschewing regime change and reducing the United States' military footprint, offshore balancing would give potential proliferators less reason to go nuclear.

Moreover, military action cannot prevent a determined country from eventually obtaining nuclear weapons; it can only buy time. The recent deal with Iran serves as a reminder that coordinated multi-lateral pressure and tough economic sanctions are a better way to discourage proliferation than preventive war or regime change.

To be sure, if the United States did scale back its security guarantees, a few vulnerable states might seek their own nuclear deterrents. That outcome is not desirable, but all-out efforts to prevent it would almost certainly be costly and probably be unsuccessful. Besides, the downsides may not be as grave as pessimists fear. Getting the bomb does not transform weak countries into great powers or enable them to blackmail rival states. Ten states have crossed the nuclear threshold since 1945, and the world has not turned upside down. Nuclear proliferation will remain a concern no matter what the United States does, but offshore balancing provides the best strategy for dealing with it.

THE DEMOCRACY DELUSION

Other critics reject offshore balancing because they believe the United States has a moral and strategic imperative to promote freedom and protect human rights. As they see it, spreading democracy will largely

rid the world of war and atrocities, keeping the United States secure and alleviating suffering.

No one knows if a world composed solely of liberal democracies would in fact prove peaceful, but spreading democracy at the point of a gun rarely works, and fledgling democracies are especially prone to conflict. Instead of promoting peace, the United States just ends up fighting endless wars. Even worse, force-feeding liberal values abroad can compromise them at home. The global war on terrorism and the related effort to implant democracy in Afghanistan and Iraq have led to tortured prisoners, targeted killings, and vast electronic surveillance of U.S. citizens.

Some defenders of liberal hegemony hold that a subtler version of the strategy could avoid the sorts of disasters that occurred in Afghanistan, Iraq, and Libya. They are deluding themselves. Democracy promotion requires large-scale social engineering in foreign societies that Americans understand poorly, which helps explain why Washington's efforts usually fail. Dismantling and replacing existing political institutions inevitably creates winners and losers, and the latter often take up arms in opposition. When that happens, U.S. officials, believing their country's credibility is now at stake, are tempted to use the United States' awesome military might to fix the problem, thus drawing the country into more conflicts.

If the American people want to encourage the spread of liberal democracy, the best way to do so is to set a good example. Other countries will more likely emulate the United States if they see it as a just, prosperous, and open society. And that means doing more to improve conditions at home and less to manipulate politics abroad.

THE PROBLEMATIC PACIFIER

Then there are those who believe that Washington should reject liberal hegemony but keep sizable U.S. forces in Europe, Northeast Asia, and the Persian Gulf solely to prevent trouble from breaking out. This low-cost insurance policy, they argue, would save lives and money in the long run, because the United States wouldn't have to ride to the rescue after a conflict broke out. This approach—sometimes called “selective engagement”—sounds appealing but would not work either.

For starters, it would likely revert back to liberal hegemony. Once committed to preserving peace in key regions, U.S. leaders would be sorely tempted to spread democracy, too, based on the widespread

belief that democracies don't fight one another. This was the main rationale for expanding NATO after the Cold War, with the stated goal of "a Europe whole and free." In the real world, the line separating selective engagement from liberal hegemony is easily erased.

Advocates of selective engagement also assume that the mere presence of U.S. forces in various regions will guarantee peace, and so Americans need not worry about being dragged into distant conflicts. In other words, extending security commitments far and wide poses few risks, because they will never have to be honored.

But this assumption is overly optimistic: allies may act recklessly, and the United States may provoke conflicts itself. Indeed, in Europe, the American pacifier failed to prevent the Balkan wars of the 1990s, the Russo-Georgian war in 2008, and the current conflict in Ukraine. In the Middle East, Washington is largely responsible for several recent wars. And in the South China Sea, conflict is now a real possibility despite the U.S. Navy's substantial regional role. Stationing U.S. forces around the world does not automatically ensure peace.

Nor does selective engagement address the problem of buck-passing. Consider that the United Kingdom is now withdrawing its army from continental Europe, at a time when NATO faces what it considers a growing threat from Russia. Once again, Washington is expected to deal with the problem, even though peace in Europe should matter far more to the region's own powers.

THE STRATEGY IN ACTION

What would offshore balancing look like in today's world? The good news is that it is hard to foresee a serious challenge to American hegemony in the Western Hemisphere, and for now, no potential hegemon lurks in Europe or the Persian Gulf. Now for the bad news: if China continues its impressive rise, it is likely to seek hegemony in Asia. The United States should undertake a major effort to prevent it from succeeding.

Ideally, Washington would rely on local powers to contain China, but that strategy might not work. Not only is China likely to be much more powerful than its neighbors, but these states are also located far from one another, making it harder to form an effective balancing coalition. The United States will have to coordinate their efforts and may have to throw its considerable weight behind them. In Asia, the United States may indeed be the indispensable nation.

In Europe, the United States should end its military presence and turn NATO over to the Europeans. There is no good reason to keep U.S. forces in Europe, as no country there has the capability to

There is no good reason to keep U.S. forces in Europe, as no country there has the capability to dominate that region.

dominate that region. The top contenders, Germany and Russia, will both lose relative power as their populations shrink in size, and no other potential hegemon is in sight. Admittedly, leaving European security to the Europeans could increase the potential for trouble there. If a conflict did arise, however, it would not threaten vital U.S. interests.

Thus, there is no reason for the United States to spend billions of dollars each year (and pledge its own citizens' lives) to prevent one.

In the Gulf, the United States should return to the offshore-balancing strategy that served it so well until the advent of dual containment. No local power is now in a position to dominate the region, so the United States can move most of its forces back over the horizon.

With respect to ISIS, the United States should let the regional powers deal with that group and limit its own efforts to providing arms, intelligence, and military training. ISIS represents a serious threat to them but a minor problem for the United States, and the only long-term solution to it is better local institutions, something Washington cannot provide.

In Syria, the United States should let Russia take the lead. A Syria stabilized under Assad's control, or divided into competing ministates, would pose little danger to U.S. interests. Both Democratic and Republican presidents have a rich history of working with the Assad regime, and a divided and weak Syria would not threaten the regional balance of power. If the civil war continues, it will be largely Moscow's problem, although Washington should be willing to help broker a political settlement.

For now, the United States should pursue better relations with Iran. It is not in Washington's interest for Tehran to abandon the nuclear agreement and race for the bomb, an outcome that would become more likely if it feared a U.S. attack—hence the rationale for mending fences. Moreover, as its ambitions grow, China will want allies in the Gulf, and Iran will likely top its list. (In a harbinger of things to come, this past January, Chinese President Xi Jinping visited

Tehran and signed 17 different agreements.) The United States has an obvious interest in discouraging Chinese-Iranian security cooperation, and that requires reaching out to Iran.

Iran has a significantly larger population and greater economic potential than its Arab neighbors, and it may eventually be in a position to dominate the Gulf. If it begins to move in this direction, the United States should help the other Gulf states balance against Tehran, calibrating its own efforts and regional military presence to the magnitude of the danger.

THE BOTTOM LINE

Taken together, these steps would allow the United States to markedly reduce its defense spending. Although U.S. forces would remain in Asia, the withdrawals from Europe and the Persian Gulf would free up billions of dollars, as would reductions in counterterrorism spending and an end to the war in Afghanistan and other overseas interventions. The United States would maintain substantial naval and air assets and modest but capable ground forces, and it would stand ready to expand its capabilities should circumstances require. But for the foreseeable future, the U.S. government could spend more money on domestic needs or leave it in taxpayers' pockets.

Offshore balancing is a grand strategy born of confidence in the United States' core traditions and a recognition of its enduring advantages. It exploits the country's providential geographic position and recognizes the powerful incentives other states have to balance against overly powerful or ambitious neighbors. It respects the power of nationalism, does not try to impose American values on foreign societies, and focuses on setting an example that others will want to emulate. As in the past, offshore balancing is not only the strategy that hews closest to U.S. interests; it is also the one that aligns best with Americans' preferences. 🌐

The Truth About Trade

What Critics Get Wrong About the Global Economy

Douglas A. Irwin

Just because a U.S. presidential candidate bashes free trade on the campaign trail does not mean that he or she cannot embrace it once elected. After all, Barack Obama voted against the Central American Free Trade Agreement as a U.S. senator and disparaged the North American Free Trade Agreement (NAFTA) as a presidential candidate. In office, however, he came to champion the Trans-Pacific Partnership (TPP), a giant trade deal with 11 other Pacific Rim countries.

Yet in the current election cycle, the rhetorical attacks on U.S. trade policy have grown so fiery that it is difficult to imagine similar transformations. The Democratic candidate Bernie Sanders has railed against “disastrous” trade agreements, which he claims have cost jobs and hurt the middle class. The Republican Donald Trump complains that China, Japan, and Mexico are “killing” the United States on trade thanks to the bad deals struck by “stupid” negotiators. Even Hillary Clinton, the expected Democratic nominee, who favored the TPP as secretary of state, has been forced to join the chorus and now says she opposes that agreement.

Blaming other countries for the United States’ economic woes is an age-old tradition in American politics; if truth is the first casualty of war, then support for free trade is often an early casualty of an election campaign. But the bipartisan bombardment has been so intense this time, and has been so unopposed, that it raises real questions about the future of U.S. global economic leadership.

The anti-trade rhetoric paints a grossly distorted picture of trade’s role in the U.S. economy. Trade still benefits the United States

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enormously, and striking back at other countries by imposing new barriers or ripping up existing agreements would be self-destructive. The badmouthing of trade agreements has even jeopardized the ratification of the TPP in Congress. Backing out of that deal would signal a major U.S. retreat from Asia and mark a historic error.

Still, it would be a mistake to dismiss all of the anti-trade talk as ill-informed bombast. Today's electorate harbors legitimate, deep-seated frustrations about the state of the U.S. economy and labor markets in particular, and addressing these complaints will require changing government policies. The solution, however, lies not in turning away from trade promotion but in strengthening worker protections.

By and large, the United States has no major difficulties with respect to trade, nor does it suffer from problems that could be solved by trade barriers. What it does face, however, is a much larger problem, one that lies at the root of anxieties over trade: the economic ladder that allowed previous generations of lower-skilled Americans to reach the middle class is broken.

SCAPEGOATING TRADE

Campaign attacks on trade leave an unfortunate impression on the American public and the world at large. In saying that some countries “win” and other countries “lose” as a result of trade, for example, Trump portrays it as a zero-sum game. That's an understandable perspective for a casino owner and businessman: gambling is the quintessential zero-sum game, and competition is a win-lose proposition for firms (if not for their customers). But it is dead wrong as a way to think about the role of trade in an economy. Trade is actually a two-way street—the exchange of exports for imports—that makes efficient use of a country's resources to increase its material welfare. The United States sells to other countries the goods and services that it produces relatively efficiently (from aircraft to soybeans to legal advice) and buys those goods and services that other countries produce relatively efficiently (from T-shirts to bananas to electronics assembly). In the aggregate, both sides benefit.

To make their case that trade isn't working for the United States, critics invoke long-discredited indicators, such as the country's negative balance of trade. “Our trade deficit with China is like having a business that continues to lose money every single year,” Trump once said. “Who would do business like that?” In fact, a nation's trade

balance is nothing like a firm's bottom line. Whereas a company cannot lose money indefinitely, a country—particularly one, such as the United States, with a reserve currency—can run a trade deficit indefinitely without compromising its well-being. Australia has run current account deficits even longer than the United States has, and its economy is flourishing.

One way to define a country's trade balance is the difference between its domestic savings and its domestic investment. The United States has run a deficit in its current account—the broadest measure of trade in goods and services—every year except one since 1981. Why? Because as a low-saving, high-consuming country, the United States has long been the recipient of capital inflows from abroad. Reducing the current account deficit would require foreigners to purchase fewer U.S. assets. That, in turn, would require increasing domestic savings or, to put it in less popular terms, reducing consumption. One way to accomplish that would be to change the tax system—for example, by instituting a consumption tax. But discouraging spending and rewarding savings is not easy, and critics of the trade deficit do not fully appreciate the difficulty involved in reversing it. (And if a current account surplus were to appear, critics would no doubt complain, as they did in the 1960s, that the United States was investing too much abroad and not enough at home.)

Critics also point to the trade deficit to suggest that the United States is losing more jobs as a result of imports than it gains due to exports. In fact, the trade deficit usually increases when the economy is growing and creating jobs and decreases when it is contracting and losing jobs. The U.S. current account deficit shrank from 5.8 percent of GDP in 2006 to 2.7 percent in 2009, but that didn't stop the economy from hemorrhaging jobs. And if there is any doubt that a current account surplus is no economic panacea, one need only look at Japan, which has endured three decades of economic stagnation despite running consistent current account surpluses.

And yet these basic fallacies—many of which Adam Smith debunked more than two centuries ago—have found a new life in contemporary American politics. In some ways, it is odd that anti-trade sentiment has blossomed in 2016, of all years. For one thing, although the post-recession recovery has been disappointing, it has hardly been awful: the U.S. economy has experienced seven years of slow but steady growth, and the unemployment rate has fallen to just



Nice work if you can get it: at a Ford plant in Michigan, November 2012

five percent. For another thing, imports have not swamped the country and caused problems for domestic producers and their workers; over the past seven years, the current account deficit has remained roughly unchanged at about two to three percent of GDP, much lower than its level from 2000 to 2007. The pace of globalization, meanwhile, has slowed in recent years. The World Trade Organization (WTO) forecasts that the volume of world trade will grow by just 2.8 percent in 2016, the fifth consecutive year that it has grown by less than three percent, down significantly from previous decades.

What's more, despite what one might infer from the crowds at campaign rallies, Americans actually support foreign trade in general and even trade agreements such as the TPP in particular. After a decade of viewing trade with skepticism, since 2013, Americans have seen it positively. A February 2016 Gallup poll found that 58 percent of Americans consider foreign trade an opportunity for economic growth, and only 34 percent viewed it as a threat.

THE VIEW FROM THE BOTTOM

So why has trade come under such strident attack now? The most important reason is that workers are still suffering from the aftermath of the Great Recession, which left many unemployed and indebted. Between 2007 and 2009, the United States lost nearly nine million

jobs, pushing the unemployment rate up to ten percent. Seven years later, the economy is still recovering from this devastating blow. Many workers have left the labor force, reducing the employment-to-population ratio sharply. Real wages have remained flat. For many Americans, the recession isn't over.

Thus, even as trade commands broad public support, a significant minority of the electorate—about a third, according to various polls—decidedly opposes it. These critics come from both sides of the political divide, but they tend to be lower-income, blue-collar workers, who

*Trade still benefits the
United States enormously.*

are the most vulnerable to economic change. They believe that economic elites and the political establishment have looked out only for themselves over the past few decades. As they see

it, the government bailed out banks during the financial crisis, but no one came to their aid.

For these workers, neither political party has taken their concerns seriously, and both parties have struck trade deals that the workers think have cost jobs. Labor unions that support the Democrats still feel betrayed by President Bill Clinton, who, over their strong objections, secured congressional passage of NAFTA in 1993 and normalized trade relations with China in 2000. Blue-collar Republican voters, for their part, supported the anti-NAFTA presidential campaigns of Pat Buchanan and Ross Perot in 1992. They felt betrayed by President George W. Bush, who pushed Congress to pass many bilateral trade agreements. Today, they back Trump.

Among this demographic, a narrative has taken hold that trade has cost Americans their jobs, squeezed the middle class, and kept wages low. The truth is more complicated. Although imports have put some people out of work, trade is far from the most important factor behind the loss of manufacturing jobs. The main culprit is technology. Automation and other technologies have enabled vast productivity and efficiency improvements, but they have also made many blue-collar jobs obsolete. One representative study, by the Center for Business and Economic Research at Ball State University, found that productivity growth accounted for more than 85 percent of the job loss in manufacturing between 2000 and 2010, a period when employment in that sector fell by 5.6 million. Just 13 percent of the overall job loss resulted from trade, although in two sectors, apparel and furniture, it accounted for 40 percent.

This finding is consistent with research by the economists David Autor, David Dorn, and Gordon Hanson, who have estimated that imports from China displaced as many as 982,000 workers in manufacturing from 2000 to 2007. These layoffs also depressed local labor markets in communities that produced goods facing Chinese competition, such as textiles, apparel, and furniture. The number of jobs lost is large, but it should be put in perspective: while Chinese imports may have cost nearly one million manufacturing jobs over almost a decade, the normal churn of U.S. labor markets results in roughly 1.7 million layoffs every month.

Research into the effect of Chinese imports on U.S. employment has been widely misinterpreted to imply that the United States has gotten a raw deal from trade with China. In fact, such studies do not evaluate the gains from trade, since they make no attempt to quantify the benefits to consumers from lower-priced goods. Rather, they serve as a reminder that a rapid increase in imports can harm communities that produce substitute goods—as happened in the U.S. automotive and steel sectors in the 1980s.

Furthermore, the shock of Chinese goods was a one-time event that occurred under special circumstances. Imports from China increased from 1.0 percent of U.S. GDP in 2000 to 2.6 percent in 2011, but for the past five years, the share has stayed roughly constant. There is no reason to believe it will rise further. China's once-rapid economic growth has slowed. Its working-age population has begun to shrink, and the migration of its rural workers to coastal urban manufacturing areas has largely run its course.

The influx of Chinese imports was also unusual in that much of it occurred from 2001 to 2007, when China's current account surplus soared, reaching ten percent of GDP in 2007. The country's export boom was partly facilitated by China's policy of preventing the appreciation of the yuan, which lowered the price of Chinese goods. Beginning around 2000, the Chinese central bank engaged in a large-scale, persistent, and one-way intervention in the foreign exchange market—buying dollars and selling yuan. As a result, its foreign exchange reserves rose from less than \$300 billion in 2000 to \$3.25 trillion in 2011. Critics rightly groused that this effort constituted currency manipulation and violated International Monetary Fund rules. Yet such complaints are now moot: over the past year, China's foreign exchange reserves have fallen rapidly as its central bank has

sought to prop up the value of the yuan. Punishing China for past bad behavior would accomplish nothing.

THE RIGHT—AND WRONG—SOLUTIONS

The real problem is not trade but diminished domestic opportunity and social mobility. Although the United States boasts a highly skilled work force and a solid technological base, it is still the case that only one in three American adults has a college education. In past decades, the two-thirds of Americans with no postsecondary degree often found work in manufacturing, construction, or the armed forces. These parts of the economy stood ready to absorb large numbers of people with limited education, give them productive work, and help them build skills. Over time, however, these opportunities have disappeared. Technology has shrunk manufacturing as a source of large-scale employment: even though U.S. manufacturing output continues to grow, it does so with many fewer workers than in the past. Construction work has not recovered from the bursting of the housing bubble. And the military turns away 80 percent of applicants due to stringent fitness and intelligence requirements. There are no comparable sectors of the economy that can employ large numbers of high-school-educated workers.

This is a deep problem for American society. The unemployment rate for college-educated workers is 2.4 percent, but it is more than 7.4 percent for those without a high school diploma—and even higher when counting discouraged workers who have left the labor force but wish to work. These are the people who have been left behind in the twenty-first-century economy—again, not primarily because of trade but because of structural changes in the economy. Helping these workers and ensuring that the economy delivers benefits to everyone should rank as urgent priorities.

But here is where the focus on trade is a diversion. Since trade is not the underlying problem in terms of job loss, neither is protectionism a solution. While the gains from trade can seem abstract, the costs of trade restrictions are concrete. For example, the United States has some 135,000 workers employed in the apparel industry, but there are more than 45 million Americans who live below the poverty line, stretching every dollar they have. Can one really justify increasing the price of clothing for 45 million low-income Americans (and everyone

else as well) in an effort to save the jobs of just some of the 135,000 low-wage workers in the apparel industry?

Like undoing trade agreements, imposing selective import duties to punish specific countries would also fail. If the United States were to slap 45 percent tariffs on imports from China, as Trump has proposed, U.S. companies would not start producing more apparel and footwear in the United States, nor would they start assembling consumer electronics domestically. Instead, production would shift from China to other low-wage developing countries in Asia, such as Vietnam. That's the lesson of past trade sanctions directed against China alone: in 2009, when the Obama administration imposed duties on automobile tires from China in an effort to save American jobs, other suppliers, principally Indonesia and Thailand, filled the void, resulting in little impact on U.S. production or jobs.

And if restrictions were levied against all foreign imports to prevent such trade diversion, those barriers would hit innocent bystanders: Canada, Japan, Mexico, the EU, and many others. Any number of these would use WTO procedures to retaliate against the United States, threatening the livelihoods of the millions of Americans with jobs that depend on exports of manufactured goods. Trade wars produce no winners. There are good reasons why the very mention of the 1930 Smoot-Hawley Tariff Act still conjures up memories of the Great Depression.

If protectionism is an ineffectual and counterproductive response to the economic problems of much of the work force, so, too, are existing programs designed to help workers displaced by trade. The standard package of Trade Adjustment Assistance, a federal program begun in the 1960s, consists of extended unemployment compensation and retraining programs. But because these benefits are limited to workers who lost their jobs due to trade, they miss the millions more who are unemployed on account of technological change. Furthermore, the program is fraught with bad incentives. Extended unemployment compensation pays workers for prolonged periods of joblessness, but their job prospects usually deteriorate the longer they stay out of the labor force, since they have lost experience in the interim.

And although the idea behind retraining is a good one—helping laid-off textile or steel workers become nurses or technicians—the

For many Americans, the recession isn't over.

actual program is a failure. A 2012 external review commissioned by the Department of Labor found that the government retraining programs were a net loss for society, to the tune of about \$54,000 per participant. Half of that fell on the participants themselves, who, on average, earned \$27,000 less over the four years of the study than similar workers who did not find jobs through the program, and half fell on the government, which footed the bill for the program. Sadly, these programs appear to do more harm than good.

A better way to help all low-income workers would be to expand the Earned Income Tax Credit. The EITC supplements the incomes of workers in all low-income households, not just those the Department of Labor designates as having been adversely affected by trade. What's more, the EITC is tied to employment, thereby rewarding work and keeping people in the labor market, where they can gain experience and build skills. A large enough EITC could ensure that every American was able to earn the equivalent of \$15 or more per hour. And it could do so without any of the job loss that a minimum-wage hike can cause. Of all the potential assistance programs, the EITC also enjoys the most bipartisan support, having been endorsed by both the Obama administration and Paul Ryan, the Republican Speaker of the House. A higher EITC would not be a cure-all, but it would provide income security for those seeking to climb the ladder to the middle class.

The main complaint about expanding the EITC concerns the cost. Yet taxpayers are already bearing the burden of supporting workers who leave the labor force, many of whom start receiving disability payments. On disability, people are paid—permanently—to drop out of the labor force and not work. In lieu of this federal program, the cost of which has surged in recent years, it would be better to help people remain in the work force through the EITC, in the hope that they can eventually become taxpayers themselves.

THE FUTURE OF FREE TRADE

Despite all the evidence of the benefits of trade, many of this year's crop of presidential candidates have still invoked it as a bogeyman. Sanders deploras past agreements but has yet to clarify whether he believes that better ones could have been negotiated or no such agreements should be reached at all. His vote against the U.S.-Australian

free-trade agreement in 2004 suggests that he opposes all trade deals, even one with a country that has high labor standards and with which the United States runs a sizable balance of trade surplus. Trump professes to believe in free trade, but he insists that the United States has been outnegotiated by its trade partners, hence his threat to impose 45 percent tariffs on imports from China to get “a better deal”—whatever that means. He has attacked Japan’s barriers against imports of U.S. agricultural goods, even though that is exactly the type of protectionism the TPP has tried to undo. Meanwhile, Clinton’s position against the TPP has hardened as the campaign has gone on.

The response from economists has tended to be either meek defenses of trade or outright silence, with some

even criticizing parts of the TPP. It’s time for supporters of free trade to engage in a full-throated championing of the many achievements of U.S. trade agreements. Indeed, because other countries’ trade barriers tend to be higher than those of the United States, trade agreements open foreign markets to U.S. exports more than they open the U.S. market to foreign imports.

That was true of NAFTA, which remains a favored punching bag on the campaign trail. In fact, NAFTA has been a big economic and foreign policy success. Since the agreement entered into force in 1994, bilateral trade between the United States and Mexico has boomed. For all the fear about Mexican imports flooding the U.S. market, it is worth noting that about 40 percent of the value of imports from Mexico consists of content originally made in the United States—for example, auto parts produced in the United States but assembled in Mexico. It is precisely such trade in component parts that makes standard measures of bilateral trade balances so misleading.

NAFTA has also furthered the United States’ long-term political, diplomatic, and economic interest in a flourishing, democratic Mexico, which not only reduces immigration pressures on border states but also increases Mexican demand for U.S. goods and services. Far from exploiting Third World labor, as critics have charged, NAFTA has promoted the growth of a middle class in Mexico that now includes nearly half of all households. And since 2009, more Mexicans have

The anti-trade rhetoric of the campaign has made it difficult for even pro-trade members of Congress to support new agreements.

left the United States than have come in. In the two decades since NAFTA went into effect, Mexico has been transformed from a clientelistic one-party state with widespread anti-American sentiment into a functional multiparty democracy with a generally pro-American public. Although it has suffered from drug wars in recent years (a spillover effect from problems that are largely made in America), the overall story is one of rising prosperity thanks in part to NAFTA.

Ripping up NAFTA would do immense damage. In its foreign relations, the United States would prove itself to be an unreliable partner. And economically, getting rid of the agreement would disrupt production chains across North America, harming both Mexico and the United States. It would add to border tensions while shifting trade to Asia without bringing back any U.S. manufacturing jobs. The American public seems to understand this: in an October 2015 Gallup poll, only 18 percent of respondents agreed that leaving NAFTA or the Central American Free Trade Agreement would be very effective in helping the economy.

A more moderate option would be for the United States to take a pause and simply stop negotiating any more trade agreements, as Obama did during his first term. The problem with this approach, however, is that the rest of the world would continue to reach trade agreements without the United States, and so U.S. exporters would find themselves at a disadvantage compared with their foreign competitors. Glimpses of that future can already be seen. In 2012, the car manufacturer Audi chose southeastern Mexico over Tennessee for the site of a new plant because it could save thousands of dollars per car exported thanks to Mexico's many more free-trade agreements, including one with the EU. Australia has reached trade deals with China and Japan that give Australian farmers preferential access in those markets, cutting into U.S. beef exports.

If Washington opted out of the TPP, it would forgo an opportunity to shape the rules of international trade in the twenty-first century. The Uruguay Round, the last round of international trade negotiations completed by the General Agreement on Tariffs and Trade, ended in 1994, before the Internet had fully emerged. Now, the United States' high-tech firms and other exporters face foreign regulations that are not transparent and impede market access. Meanwhile, other countries are already moving ahead with their own trade agreements, increasingly taking market share from U.S. exporters in the dynamic

Asia-Pacific region. Staying out of the TPP would not lead to the creation of good jobs in the United States. And despite populist claims to the contrary, the TPP's provisions for settling disputes between investors and governments and dealing with intellectual property rights are reasonable. (In the early 1990s, similar fears about such provisions in the WTO were just as exaggerated and ultimately proved baseless.)

The United States should proceed with passage of the TPP and continue to negotiate other deals with its trading partners. So-called plurilateral trade agreements, that is, deals among relatively small numbers of like-minded countries, offer the only viable way to pick up more gains from reducing trade barriers. The current climate on Capitol Hill means that the era of small bilateral agreements, such as those pursued during the George W. Bush administration, has ended. And the collapse of the Doha Round at the WTO likely marks the end of giant multilateral trade negotiations.

Free trade has always been a hard sell. But the anti-trade rhetoric of the 2016 campaign has made it difficult for even pro-trade members of Congress to support new agreements. Past experience suggests that Washington will lead the charge for reducing trade barriers only when there is a major trade problem to be solved—namely, when U.S. exporters face severe discrimination in foreign markets. Such was the case when the United States helped form the General Agreement on Tariffs and Trade in 1947, when it started the Kennedy Round of trade negotiations in the 1960s, and when it initiated the Uruguay Round in the 1980s. Until the United States feels the pain of getting cut out of major foreign markets, its leadership on global trade may wane. That would represent just one casualty of the current campaign. 🌐

NATO's Next Act

How to Handle Russia and Other Threats

Philip M. Breedlove

In May 2013, when I became commander of U.S. European Command and NATO's supreme allied commander for Europe, I found U.S. and NATO forces well suited for their requirements at the time but ill prepared for the challenges that lay ahead. The United States' military presence in Europe, which had shrunk significantly since the 1990s, was not oriented toward a specific threat. NATO, for its part, was mostly involved in operations outside the continent, primarily in Afghanistan.

Now that I have completed my tenure, I have the chance to reflect on how U.S. European Command and NATO have evolved since I took up my positions. Over the past three years, the United States and the alliance have shifted their focus to threats closer to the heart of Europe—namely, Russian aggression and the vexing challenges associated with the ongoing instability in the Middle East and North Africa. These threats are of a breadth and complexity that the continent has not seen since the end of World War II. Although the United States and NATO are better prepared to confront them today than they were in early 2014, when Russia illegally annexed Crimea and conducted a de facto invasion of eastern Ukraine, there is much more that the United States and its allies must do—above all, improve their abilities to deter the Russian threat and to deal with the problems associated with regional instability on Europe's borders, namely, international displacement and transnational terrorism. To better prepare for these challenges, the United States should increase the resources available to its forces in Europe and recognize Russia as the enduring, global threat it really represents.

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THE ROAD TO THE PRESENT

To appreciate the position the United States and its allies found themselves in when Russia began its intervention in Ukraine, it is helpful to look back to the Cold War. In the final years of that conflict, NATO's forces and those of the Warsaw Pact enjoyed relative parity. NATO had approximately 2.3 million men under arms in Europe; the nations of the Warsaw Pact had about 2.1 million. Although the Warsaw Pact countries had more tanks, artillery pieces, and fighter jets than NATO, the alliance managed to counter this numerical advantage through its advanced military equipment. NATO's mission at the time was hardly easy, but it was relatively clear-cut. The West knew how to deal with a potential invasion launched by the Warsaw Pact, and the relative parity between NATO and the communist bloc, along with the doctrine of mutual assured destruction, ensured that such an invasion was unlikely.

When the Warsaw Pact and the Soviet Union dissolved in 1991, NATO was already developing a strategic vision for Europe's new security environment that placed less emphasis on nuclear deterrence and the forward deployment of allied forces. The United States and most of its NATO allies dramatically decreased the size of their forces in Europe. Meanwhile, the sudden collapse of Soviet power, which in eastern Europe had held nationalism and instability in check for decades, allowed democratization to begin in newly independent states, but it also led to civil strife, most notably in the Balkans. NATO, then the world's only capable multinational force, sent peacekeepers there, tipping the balance toward a political resolution of the conflict. Then, in the years after 9/11, the alliance intervened in Afghanistan, and subsequently in Libya, where it also faced challengers without the advanced military capabilities of a near-peer competitor. In other words, in the decades after the Cold War, NATO found a new *raison d'être* in stability operations and confronting low-end threats. It adjusted its force structure accordingly.

All the while, neither the United States nor NATO was paying enough attention to its old nemesis to the east: Russia, which was working to reassert its influence in many of the areas the Soviet Union had once dominated. In every year after 1998, Russia increased its military spending; at the same time, it was increasingly meddling in the affairs of its neighbors, for example, by suspending gas supplies to Ukraine several times in the years after the Orange Revolution of

2004–5. It was Russia’s invasion of Georgia in 2008, however, that showed just how far Moscow was willing to go to punish states on its periphery for moving closer to the West. The speed with which the invading Russian forces moved into Georgia left no doubt that the operation had been planned far in advance. The United States was focused on the wars in Afghanistan and Iraq and on fighting global terrorism, and Russia saw an opportunity.

Russia’s operation in Georgia formed part of the blueprint for its actions in Ukraine. By seizing Crimea, backing separatist rebels in the Donbas, and sponsoring protests against the pro-Western government in Kiev, Russia showed once again that it was willing to undermine established norms of international behavior to achieve its goals. When the West responded by levying sanctions against Russia that, compounded by low oil prices, resulted in a rapid economic decline, Moscow doubled down, increasing its provocations against NATO ships and planes operating in international territory, intervening in Syria in support of President Bashar al-Assad, and further militarizing the Arctic.

Moscow is determined to reestablish what it considers its rightful sphere of influence, undermine NATO, and reclaim its great-power status. That desire has been evident since 2005, when Russian President Vladimir Putin called the collapse of the Soviet Union “the greatest geopolitical catastrophe of the [twentieth] century”—a preposterous claim in light of that century’s two world wars. It is through this prism that the West must view Russian aggression.

COMPOUNDING PROBLEMS

Despite Russia’s growing belligerence, neither the United States’ military nor those of its allies are adequately prepared to rapidly respond to overt military aggression. Nor are they sufficiently ready to counter the kind of hybrid warfare that Moscow has waged in eastern Ukraine. At the height of the Cold War, the United States had more than 400,000 soldiers assigned to Europe; today, there are fewer than 100,000 soldiers assigned to the continent, and 35,000 of them are on rotational deployments. Indeed, even when combined with the forces of NATO, the United States’ military presence on the continent would be hard-pressed to deter a determined Russia. By rapidly invading a NATO ally, Russia could present a *fait accompli* that would be brutally expensive and difficult for the United States and its allies to reverse.



Under our wing: a NATO air-policing mission over Lithuania, May 2015

The imposition of compulsory budget cuts in the United States has compounded these challenges by limiting the Department of Defense's ability to plan for the future and by mandating risky drawdowns in both the capacity and the capabilities of the U.S. military. Adding to the challenge, the U.S. defense budget has declined in real terms since 2010, even as the country's international requirements have increased. The United States' operations in Africa and the Middle East, meanwhile, have increased the burden on the country's assets in Europe, which are frequently used to support U.S. missions in those regions. And an increased focus on the Asia-Pacific as a result of the "rebalance" means that there are fewer resources available for U.S. operations elsewhere.

Other NATO members face similar problems. Only a handful of NATO nations are capable of conducting full-spectrum combat operations, and none can do so for a prolonged period. Although a number of NATO members have halted their slide in defense spending, most are still failing to achieve the alliance-wide target for defense expenditures of two percent of GDP. What is more, although NATO has gained 12 new members since 1990, its total military spending, excluding that of the United States, has decreased: from some \$332 billion in 1990 to \$303 billion in 2014 in constant 2011 dollars, according to the Stockholm International Peace Research Institute. And the alliance remains responsible for some of the missions it took on after the end of the

Cold War: in Kosovo, where it has stationed some 4,800 soldiers, and in Afghanistan, where NATO will likely remain engaged in some form until 2020.

The Syrian civil war and persistent instability throughout the Middle East and in North Africa have further complicated matters by encouraging the largest refugee crisis in Europe since World War II. The resources that NATO members array against these challenges and against the threat of domestic terrorism are simply not available for the alliance's use elsewhere.

Indeed, as members attempt to cut back on their military spending amid slow economic growth, they must pick and choose where to concentrate their efforts. Countries on the eastern and northern flanks of NATO, such as Poland and the Baltic states, tend to see Russia as the most immediate threat to their security, whereas states closer to the turmoil in the Middle East and North Africa, such as France, Greece, Italy, and Turkey, tend to view the migrant crisis as a more pressing challenge. Facing such challenges, along with the high costs of developing and acquiring the advanced weapons systems that might deter Russia, many NATO countries are instead investing in forces designed for limited territorial defense and internal security. And because adjusting NATO's broader military posture requires the unanimous agreement of all 28 member states, reforming the force is a slow process.

EARLY STEPS

The good news is that the United States and NATO recognize that the European neighborhood has changed and have begun to act. In June 2014, U.S. President Barack Obama announced the European Reassurance Initiative, an effort to demonstrate the United States' commitment to the security and territorial integrity of its European allies in the wake of Russia's intervention in Ukraine. With a budget of \$985 million in fiscal year 2015 and an additional \$789 million in fiscal year 2016, the initiative has funded new bilateral and multi-lateral military exercises and greater deployments of U.S. forces to the continent, supported by the placement of more U.S. military equipment, including artillery, tanks, and other armored fighting vehicles, in central and eastern Europe. These moves not only are increasing the United States' combat readiness but also will save the country millions of dollars relative to what it would have cost to

repeatedly send similar assets to Europe. The increased funding that Obama has requested for the initiative in fiscal year 2017, of some \$3.4 billion, will do even more to improve the United States' and NATO's ability to deter Russia, in part by allowing the United States to ramp up training programs with its allies, preposition even more military equipment in Europe, build up the military capacities of U.S. partners, and invest in the infrastructure needed to support all these measures. It will also support the development of Army Prepositioned Stocks, which are complete prepositioned sets of supplies and equipment for armored and mechanized brigades; these will allow the United States and its allies to rapidly deploy reinforcements in the event of a crisis.

Meanwhile, in the summer of 2014, U.S. European Command began Operation Atlantic Resolve, a broad program of action in support of the European Reassurance Initiative. U.S. forces have maintained successive rotational deployments in Poland and the Baltic states for almost two years. In the Mediterranean and the Black Sea region, the U.S. Marine Corps has kept up the nearly continuous rotational presence that it began in 2010, and the U.S. Navy has increased its presence in the Bosphorus. The U.S. Air Force, for its part, has significantly ramped up so-called micro-deployments of small teams of fighter and attack aircraft to other NATO countries, where they work with their hosts to exchange tactics and improve interoperability.

NATO, too, is changing. In 2014, the alliance agreed to the Readiness Action Plan to ensure that it can react swiftly to security challenges on its eastern and southern frontiers. The plan includes a number of immediate measures, such as ramped-up military exercises and aerial patrols over the Baltic states, which are aimed at reassuring the populations of NATO countries, deterring Russian aggression, and improving interoperability among national forces. More significant are the long-term reforms that aim to improve the readiness and responsiveness of the alliance's forces. To begin with, NATO created the Very High Readiness Joint Task Force, a brigade that can respond to crises on extremely short notice. Then, last summer, NATO announced that

Despite Russia's growing belligerence, the United States' military is not adequately prepared to respond.

it would triple the size of that contingent's parent force, a land, sea, and air group known as the NATO Response Force, to around 40,000 soldiers.

The alliance has also improved its command-and-control structures. In six vulnerable central and eastern European member states, NATO has established small headquarters, known as Force Integration Units, which will help incorporate allied forces into the defense structures of the host countries, ensuring that when NATO troops are deployed to a conflict involving one of its members, they will be able to work seamlessly with forces already in the fight. And in 2015, NATO established two new tactical headquarters in Poland and Romania. Improvements such as these will upgrade the readiness of NATO's forces, serve as an effective deterrent against would-be foes, and help the alliance better monitor the ongoing instability in the Middle East and North Africa. Taken together, the measures pursued under NATO's Readiness Action Plan represent the most significant reinforcement of the alliance's capacity for collective defense since the end of the Cold War.

WHAT THE FUTURE HOLDS

These actions are a strong start, but they are not enough. The foundation of any strategy in Europe must be the recognition that Russia poses an enduring existential threat to the United States, its allies, and the international order. Russia is determined to once again become a global power—an ambition it has demonstrated by, for example, conducting confrontational mock attacks on U.S. forces, as Russian warplanes did to the USS *Donald Cook* in the Baltic Sea in April, and resuming Cold War-era strategic bomber flights along the U.S. coastline. What is more, as Russia's intervention in Syria has demonstrated, Moscow will seek out all opportunities to expand its influence abroad. Because the Kremlin views the United States and other NATO members as its primary adversaries, it considers its relationship with the West a zero-sum game. It will continue to do so for the foreseeable future.

The Putin government will not allow any nation over which it has sufficient leverage to develop closer ties with the West—namely, by moving toward membership in the EU or NATO—and it will do everything in its power to sow instability in countries such as Georgia, Moldova, and Ukraine. Putin no doubt knows that the EU and NATO will be reluctant to accept a nation as a member if it is caught up in a so-called frozen conflict.

At the same time, Russia will continue to improve its military's ability to offset the technological advantages currently enjoyed by NATO. Although Russia's fighter aircraft do not currently match the West's, the country's advanced air defenses, coastal cruise missiles, antiship capabilities, and air-launched cruise missiles are increasingly capable. If Moscow managed to keep U.S. reinforcements out of a potential conflict between Russia and NATO while preventing Western warplanes from hitting their targets, it would

*The United States
should seek to change
Russia's calculus before
Moscow acts aggressively.*

seriously degrade the advantages of the United States and its allies. To this end, Russia is establishing "anti-access/area-denial" zones across its periphery, including in the Baltic and Black Seas, the Arctic, and the Russian Far East. What is more, Russia's growing footprint in Syria offers Moscow the capability, if it chooses, to threaten U.S. and allied forces operating in the eastern Mediterranean and in the skies over Syria.

Russia has shown that it can cause Washington and its allies significant political and military angst with minimal effort and at relatively little cost. So far, the United States and NATO have consistently reacted to Russia's provocations rather than preempting them. Instead, the United States and its allies should take a proactive stance that seeks to change Russia's calculus before Moscow acts aggressively. Under such a strategy, the United States and its allies would determine in advance and then clearly articulate when they will counter Russia's moves, when they will ignore them, and when they will seek cooperation.

There are certainly opportunities to work with Russia, as Washington and Moscow's mutual effort to bring Iran to the negotiating table through economic sanctions has shown. In dealing with North Korea, managing drug trafficking in Central Asia, policing the fisheries in the North Pacific, and undertaking search-and-rescue operations in the Arctic, to name only a few, there are further potential opportunities for the two countries to work together on shared interests.

Even as the United States works with Russia on issues such as these, however, it must not allow its stance against Moscow's transgressions to soften. The Kremlin respects only strength and sees opportunity in the weakness and inattention of others, so the United States and NATO must stand firm, especially with respect to Russia's nefarious and coercive attempts to prevent countries on its periphery from choosing

to align with the EU and NATO. Washington's strategy should reassure U.S. allies and ensure that the Kremlin understands the specific consequences that a confrontation would bring.

In order for such a strategy to be effective, the United States and its allies must demonstrate that their forces in Europe represent a credible deterrent. After two decades of shrinking resources, this will require more work. Although U.S. personnel represent the United States' most important asset, the country must work to balance its military personnel costs with the need to develop and deploy more advanced and capable weapons. The Department of Defense, which cannot afford cost overruns and inefficiencies, should continue to reform its acquisition processes. More broadly, the United States must end the crippling effects of sequestration and prevent the gap between the requirements of the military and the resources available to it from widening further. Other NATO countries must bear some of the burden, too. They must round out the knowledge of counterinsurgency and stability operations that they have developed in Afghanistan with stronger war-fighting and counterterrorism capabilities.

Even as the United States invests in new technologies to offset the strengths of its potential adversaries in the longer term, it must take additional concrete steps. Developing an effective mix of permanently forward-deployed and rotational forces, along with prepositioned equipment and the capacity to rapidly reinforce U.S. forces in Europe with troops from the continental United States, will deter Russia and reassure U.S. allies of Washington's commitment to do so. General James Amos, the former commandant of the Marine Corps, said it best when he noted, "Forward presence builds trust that cannot be surged when a conflict looms." As for what form this ramped-up presence should take, the United States should preposition the equipment for two or three additional armored brigades in eastern Europe, along with the supplies to sustain those forces through at least two months of intense conflict. The United States' nuclear forces remain an essential deterrent, too, so the country should maintain them, enhancing the nuclear exercises that U.S. forces carry out with its NATO allies to demonstrate their resolve and capability to Russia.

A WAY AHEAD

Even as the United States and its NATO allies focus on countering Russia, they must not lose sight of the challenges of Islamist terrorism

and population displacement, which are rooted in instability and poor governance in the Middle East and North Africa. The United States should be prepared to continue the fight against the Islamic State (also known as ISIS), al Qaeda, and other terrorist groups for some time to come. In this effort, however, U.S. forces should play a supporting role: the main strategy should be to invest in institution building and education, among other measures, to stabilize the poorly governed spaces that give rise to terrorism and displaced populations. The United States, in particular, must consider cooperating with foreign governments whose democratic bona fides are less than perfect. At the end of the day, the United States' discomfort with some of the governments in the Middle East should not hold back its efforts to meet these challenges.

Of course, just as important as what the United States and its allies should do is what they should not do. To let Russia know that its illegal annexation of Crimea and invasion of the Donbas cannot stand, the United States should not allow the sanctions regime to soften. It should not choose the middle ground in Syria, in Iraq, in Libya, and in other ungoverned spaces. The United States must lead: it should do more to build up the defenses and civil societies of its most vulnerable partners, and it must be willing to make the difficult choice to use force when necessary.

Inaction and indecision on the part of the United States will have consequences far beyond the immediate problems it seeks to address. Unless the country demonstrates its resolve and makes the necessary investments, its adversaries will continue to undermine U.S. interests, and others around the world will lose respect for U.S. power. The cost in blood and treasure to defend the United States and to come to the aid of U.S. allies whose trust has been built up through decades of shared sacrifice will be much greater in the future if the United States fails to act now. 🌐

Germany's New Global Role

Berlin Steps Up

Frank-Walter Steinmeier

Over the past two decades, Germany's global role has undergone a remarkable transformation. Following its peaceful reunification in 1990, Germany was on track to become an economic giant that had little in the way of foreign policy. Today, however, the country is a major European power that attracts praise and criticism in equal measure. This holds true both for Germany's response to the recent surge of refugees—it welcomed more than one million people last year—and for its handling of the euro crisis.

As Germany's power has grown, so, too, has the need for the country to explain its foreign policy more clearly. Germany's recent history is the key to understanding how it sees its place in the world. Since 1998, I have served my country as a member of four cabinets and as the leader of the parliamentary opposition. Over that time, Germany did not seek its new role on the international stage. Rather, it emerged as a central player by remaining stable as the world around it changed. As the United States reeled from the effects of the Iraq war and the EU struggled through a series of crises, Germany held its ground. It fought its way back from economic difficulty, and it is now taking on the responsibilities befitting the biggest economy in Europe. Germany is also contributing diplomatically to the peaceful resolution of multiple conflicts around the globe: most obviously with Iran and in Ukraine, but also in Colombia, Iraq, Libya, Mali, Syria, and the Balkans. Such actions are forcing Germany to reinterpret the principles that have guided its foreign policy for over half a century. But Germany is a reflective power: even as it adapts, a belief in the importance of

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restraint, deliberation, and peaceful negotiation will continue to guide its interactions with the rest of the world.

THE STRONG MAN OF EUROPE

Today both the United States and Europe are struggling to provide global leadership. The 2003 invasion of Iraq damaged the United States' standing in the world. After the ouster of Saddam Hussein, sectarian violence ripped Iraq apart, and U.S. power in the region began to weaken. Not only did the George W. Bush administration fail to reorder the region through force, but the political, economic, and soft-power costs of this adventure undermined the United States' overall position. The illusion of a unipolar world faded.

When U.S. President Barack Obama assumed office in 2009, he began to rethink the United States' commitment to the Middle East and to global engagements more broadly. His critics say that the president has created power vacuums that other actors, including Iran and Russia, are only too willing to fill. His supporters, of which I am one, counter that Obama is wisely responding to a changing world order and the changing nature of U.S. power. He is adapting the means and goals of U.S. foreign policy to the nation's capabilities and the new challenges it faces.

Meanwhile, the EU has run into struggles of its own. In 2004, the union accepted ten new member states, finally welcoming the former communist countries of eastern Europe. But even as the EU expanded, it lost momentum in its efforts to deepen the foundations of its political union. That same year, the union presented its members with an ambitious draft constitution, created by a team led by former French President Valéry Giscard d'Estaing. But when voters in France and the Netherlands, two of the EU's founding nations, rejected the document, the ensuing crisis emboldened those Europeans who questioned the need for an "ever-closer union." This group has grown steadily stronger in the years since, while the integrationists have retreated.

Now, the international order that the United States and Europe helped create and sustain after World War II—an order that generated freedom, peace, and prosperity in much of the world—is under pressure. The increasing fragility of various states—and, in some cases, their complete collapse—has destabilized entire regions, especially Africa and the Middle East, sparked violent conflicts, and provoked ever-greater waves of mass migration. At the same time, state and nonstate actors are increasingly

defying the multilateral rules-based system that has preserved peace and stability for so long. The rise of China and India has created new centers of power that are changing the shape of international relations. Russia's annexation of Crimea has produced a serious rift with Europe and the United States. The rivalry between Iran and Saudi Arabia increasingly dominates the Middle East, as the state order in the region erodes and the Islamic State, or ISIS, attempts to obliterate borders entirely.

Against this backdrop, Germany has remained remarkably stable. This is no small achievement, considering the country's position in 2003, when the troubles of the United States and the EU were just beginning. At the time, many called Germany "the sick man of Europe": unemployment had peaked at above 12 percent, the economy had stagnated, social systems were overburdened, and Germany's opposition to the U.S.-led war in Iraq had tested the nation's resolve and provoked outrage in Washington. In March of that year, German Chancellor Gerhard Schröder delivered a speech in Germany's parliament, the Bundestag, titled "Courage for Peace and Courage for Change," in which he called for major economic reforms. Although his fellow Social Democrats had had the courage to reject the Iraq war, they had little appetite for change. Schröder's reforms to the labor market and the social security system passed the Bundestag, but at a high political price for Schröder himself: he lost early elections in 2005.

But those reforms laid the foundation for Germany's return to economic strength, a strength that has lasted to the present day. And Germany's reaction to the 2008 financial crisis only bolstered its economic position. German businesses focused on their advantages in manufacturing and were quick to exploit the huge opportunities in emerging markets, especially China. German workers wisely supported the model of export-led growth.

But Germans should not exaggerate their country's progress. Germany has not become an economic superpower, and its share of world exports was lower in 2014 than in 2004—and lower than at the time of German reunification. Germany has merely held its ground better than most of its peers in the face of rising competition.

EUROPE'S PEACEFUL POWER

Germany's relative economic power is an unambiguous strength. But some critics see the country's military restraint as a weakness. During Schröder's chancellorship, Germany fought in two wars (in Kosovo



Steinmeier at a meeting of EU foreign ministers in Brussels, July 2014

and Afghanistan) and adamantly opposed the unleashing of a third (in Iraq). The military engagements in Kosovo and Afghanistan marked a historic step for a nation that had previously sought to ban the word “war” from its vocabulary entirely. Yet Germany stepped up because it took its responsibility for the stability of Europe and its alliance with the United States seriously. Then as now, German officials shared a deep conviction that the country’s security was inextricably linked to that of the United States. Nevertheless, most of them opposed the invasion of Iraq, because they saw it as a war of choice that had dubious legitimacy and the clear potential to spark further conflict. In Germany, this opposition is still widely considered a major achievement—even by the few who supported U.S. policy at the time.

In the years since, Germany’s leaders have carefully deliberated whether to get involved in subsequent conflicts, subjecting these decisions to a level of scrutiny that has often exasperated the country’s allies. In the summer of 2006, for example, I helped broker a cease-fire in Lebanon to end the war between Israel and Hezbollah. I believed Germany had to support this agreement with military force if necessary, even though I knew that our past as perpetrators of the Holocaust made the deployment of German soldiers on Israel’s borders a particularly delicate matter. Before embracing the military option, I invited my three immediate predecessors as foreign minister to Berlin

for advice. Together they brought 31 years of experience in office to the table. Germany's history weighed most heavily on the eldest among us, Hans-Dietrich Genscher, a World War II veteran, who argued against the proposal. My younger two predecessors agreed with me, however, and to this day, German warships patrol the Mediterranean coast to control arms shipments to Lebanon as part of the United Nations Interim Force in Lebanon—an arrangement accepted and supported by Israel.

Germany's path to greater military assertiveness has not been linear, and it never will be. Germans do not believe that talking at roundtables solves every problem, but neither do they think that shooting does. The mixed track record of foreign military interventions over the past 20 years is only one reason for caution. Above all, Germans share a deeply held, historically rooted conviction that their country should use its political energy and resources to strengthen the rule of law in international affairs. Our historical experience has destroyed any belief in national exceptionalism—for any nation. Whenever possible, we choose *Recht* (law) over *Macht* (power). As a result, Germany emphasizes the need for legitimacy in supranational decision-making and invests in UN-led multilateralism.

Every German military deployment faces intense public scrutiny and must receive approval from the Bundestag. Germans always seek to balance the responsibility to protect the weak with the responsibility of restraint. If Germany's partners and allies walk an extra mile for diplomacy and negotiations, Germans want their government to walk one mile further, sometimes to our partners' chagrin. That does not mean Germany is overcompensating for its belligerent past. Rather, as a reflective power, Germany struggles to reconcile the lessons of history with the challenges of today. Germany will continue to frame its international posture primarily in civilian and diplomatic terms and will resort to military engagement only after weighing every risk and every possible alternative.

EMBRACING A GLOBAL ROLE

Germany's relative economic strength and its cautious approach to the use of force have persisted as the regional and global environment has undergone radical change. Germany's partnership with the United States and its integration into the EU have been the main pillars of its foreign policy. But as the United States and the EU

have stumbled, Germany has held its ground and emerged as a major power, largely by default.

In this role, Germany has come to realize that it cannot escape its responsibilities. Since Germany sits at the center of Europe, neither isolation nor confrontation is a prudent policy option. Instead, Germany tries to use dialogue and cooperation to promote peace and end conflict.

Consider Germany's new role in the Middle East. For decades, the Arab-Israeli conflict dominated the region's political landscape. In the decades after World War II, Germany deliberately avoided a role at the forefront of diplomatic efforts to resolve the standoff. But today, as conflicts have spread, Germany is engaging more broadly across the region. Since 2003, when multilateral efforts to dissuade Iran from building a nuclear bomb began, Germany has played a central role, and it was one of the signatories to the agreement reached in 2015. Germany is also deeply involved in finding a diplomatic solution to the conflict in Syria.

Nor is Germany shying away from the responsibility to help construct a new security architecture in the region—a process for which the Iran deal may have paved the way. Europe's history offers some useful lessons here. The 1975 Helsinki conference helped overcome the continent's Cold War-era divisions through the creation of the Organization for Security and Cooperation in Europe. If regional players choose to look at that example, they will find useful lessons that might assist them in addressing their current conflicts.

Sometimes Germans need others to remind us of the usefulness of our own history. Last year, for example, I had an inspiring conversation with a small group of intellectuals in Jeddah, Saudi Arabia. One of them remarked, "We need a Westphalian peace for our region." The deal that diplomats in Münster and Osnabrück hammered out in 1648 to separate religion from military power inspires thinkers in the Middle East to this day; for a native Westphalian like me, there could be no better reminder of the instructive power of the past.

RISING TO THE CHALLENGE

Closer to home, the Ukraine crisis has tested Germany's leadership and diplomatic skills. Since the collapse of Viktor Yanukovich's regime and the Russian annexation of Crimea in early 2014, Germany and France have led international efforts to contain and ultimately solve the military and political crisis. As the U.S. government has focused

on other challenges, Germany and France have assumed the role of Russia's main interlocutors on questions concerning European security and the survival of the Ukrainian state.

Germany did not elbow its way into that position, nor did anyone else appoint it to that role. Its long-standing economic and political ties to both Russia and Ukraine made it a natural go-between for both sides, despite Berlin's obvious support for the victims of Moscow's

Perhaps no other European nation's fate is so closely connected to the existence and success of the EU.

aggression. The intense political debate that played out within Germany over how to respond to the challenge only enhanced Berlin's credibility, by showing the world that the government did not take its decisions lightly. The Minsk agreement that Germany and France brokered in February 2015 to halt hostilities

is far from perfect, but one thing is certain: without it, the conflict would have long ago spun out of control and extended beyond the Donbas region of Ukraine. Going forward, Germany will continue to do what it can to prevent the tensions from escalating into a new Cold War.

During the euro crisis, meanwhile, Germany was forced to confront the danger posed by the excessive debt levels of some Mediterranean EU states. The overwhelming majority of the eurozone's members and the International Monetary Fund supported plans to demand that countries such as Greece impose budgetary controls and hard but unavoidable economic and social reforms to ensure the eventual convergence of the economies of the eurozone. But rather than placing the responsibility for such changes in the hands of these countries' national elites, many in Europe preferred to blame Germany for allegedly driving parts of southern European into poverty, submission, and collapse.

Germany has come under similar criticism during the ongoing refugee crisis. Last autumn, Germany opened the country's borders to refugees, mainly from Iraq and Syria. The governments of the Czech Republic, Hungary, and Slovakia worried that this move would worsen the crisis by encouraging more refugees to enter their countries in the hope of eventually crossing into Germany. So far, however, such fears have proved unfounded.

How and when Europe will resolve this crisis remains unclear. What is clear, however, is that even a relatively strong country such as

Germany cannot do it alone. We cannot give in to the rising desire of certain groups of the electorate to respond on a solely national level, by setting arbitrary limits on the acceptance of refugees, for example. Germany cannot and will not base its foreign policy on solutions that promise quick fixes but in reality are counterproductive, be they walls or wars.

A reflective foreign policy requires constant deliberation over hard choices. It also requires flexibility. Consider the recent refugee deal Germany helped the EU strike with Turkey. Under this agreement, the EU will return to Turkey any migrant who arrives illegally in Greece and in return will open a legal path for Syrians to come to the EU directly from Turkey. The agreement also contains provisions for much deeper cooperation between the EU and Turkey. Despite controversial developments within Turkey, such as the escalation of violence in the Kurdish regions and the increasing harassment of the media and the opposition, Germany recognized that Turkey had a critical role to play in the crisis and that no sustainable progress could be made without it. No one can tell today whether the new relationship will be constructive in the long term. But there can hardly be progress or humane management of the EU's external border unless European leaders engage seriously with their Turkish counterparts.

Some politicians, such as the former Polish foreign minister Radek Sikorski, have described Germany as Europe's "indispensable nation." Germany has not aspired to this status. But circumstances have forced it into a central role. Perhaps no other European nation's fate is so closely connected to the existence and success of the EU. For the first time in its history, Germany is living in peace and friendship with France, Poland, and the rest of the continent. This is largely due to the renunciation of complete sovereignty and the sharing of resources that the EU has encouraged for almost 60 years now. As a result, preserving that union and sharing the burden of leadership are Germany's top priorities. Until the EU develops the ability to play a stronger role on the world stage, Germany will try its best to hold as much ground as possible—in the interests of all of Europe. Germany will be a responsible, restrained, and reflective leader, guided in chief by its European instincts. 🌐

The Future of U.S.-Saudi Relations

The Kingdom and the Power

F. Gregory Gause III

The relationship between the United States and Saudi Arabia has come under unprecedented strains in recent years. U.S. President Barack Obama has openly questioned Riyadh's value as an ally, accusing it of provoking sectarian conflict in the region. According to *The Atlantic's* Jeffrey Goldberg, when Malcolm Turnbull, Australia's prime minister, asked Obama whether he saw the Saudis as friends, the president responded, "It's complicated." Many Americans continue to believe that the Saudi government was involved in the September 11, 2001, attacks, although the 9/11 Commission found no evidence of institutional or senior-level Saudi support. The Senate has even passed a bill that would allow Americans to sue the Saudi government in U.S. courts for its alleged support of terrorism.

The Saudis have been equally intemperate in their recent comments. The kingdom's officials have threatened to sell off hundreds of billions of dollars of U.S. assets if Congress passes the bill, even though such a move would hurt Saudi Arabia much more than it would the United States. And they have made little effort to hide their contempt for Obama, whom they see as too willing to jettison old friends in order to cozy up to enemies. Prince Turki al-Faisal—the most outspoken senior member of the ruling family and a former head of Saudi foreign intelligence and former ambassador to the United States—has accused Obama of "throw[ing Saudi Arabia] a curve ball" because he has "pivoted to Iran." The prince went on to say that the Saudis would "continue to hold the

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American people as [an] ally”—but implied that they no longer view the American president as one.

Several pillars of the two countries' relationship, built after World War II, have started to fracture. The Cold War, which once united the unlikely allies against the Soviets, has long since ended. With Saddam Hussein's downfall in Iraq, the threat of an overt military attack on Saudi Arabia or its smaller Gulf neighbors has faded. And the upsurge in domestic U.S. oil production has revived dreams of American energy independence.

As the foundations of the relationship have weakened, its American critics have grown bolder. They point out that Wahhabism, the ultraconservative form of Islam that Saudi Arabia promotes, directly contradicts American values and that Saudi Arabia stands near the bottom of any world ranking on democracy, religious freedom, human rights, and women's rights. They argue that the Saudi regime, an absolute monarchy in a democratic age, is so anachronistic that it will not survive much longer. And they emphasize the fact that the Saudis share few priorities with the United States in the Middle East. As Washington is attempting to develop a new relationship with Tehran, the Saudis continue to fear Iranian encirclement; they refuse to concentrate their resources on the fight against the Islamic State (also known as ISIS) and al Qaeda and have instead demanded that the United States support their parochial military adventures in Yemen and elsewhere.

To these critics' dismay, however, both countries continue to work together closely. Obama, for all his public misgivings, went to Riyadh in April to attend the Gulf Cooperation Council summit, where he reiterated his commitment to the security of Saudi Arabia and the other Gulf states. Washington continues to sell vast quantities of arms to Riyadh. The Saudis, for their part, have held their noses and publicly endorsed the Iran nuclear deal. And intelligence sharing continues apace.

While such cooperation may cause critics to gnash their teeth, it serves both countries well. The United States has a crucial interest in maintaining a clear-eyed but close relationship with Saudi Arabia. As political authority collapses throughout the Middle East, Washington needs a good working relationship with one of the few countries that can govern its territory and exert some influence in those areas where real governance no longer exists. Although their strategic visions may

diverge, the two countries still share many goals. Both see ISIS and al Qaeda as direct threats. Neither wants Iran to dominate the region. Both want to avoid any disruption to the vast energy supplies that flow through the Persian Gulf. And both would like to see a negotiated solution to the Israeli-Palestinian conflict. More still unites Washington and Riyadh than divides them.

GROWING APART

The United States and Saudi Arabia came together in the aftermath of World War II, the first war in which oil was a strategic commodity. U.S. military planners worried about access to oil in any future conflict. The Saudis had lots of it, and U.S. companies had begun to develop the Saudi oil industry. Access to cheap energy was also essential for U.S. plans to rebuild the destroyed economies of Western Europe and Japan. For their part, the Saudis recognized that British power, which had shaped the post-World War I Middle East, was receding and that they had more in common with Washington than with Moscow in the emerging Cold War. They had already thrown in their lot with U.S. oil companies; joining the U.S. side in the emerging bipolar world made perfect sense, even though the two countries disagreed profoundly on Arab-Israeli issues: the biggest crisis in U.S.-Saudi relations before the 9/11 attacks was the Saudi oil embargo during the 1973 Arab-Israeli war. But common geopolitical and economic interests were enough to sustain the relationship, despite the differences over Israel.

Today, however, the situation has changed. The two countries still share interests, but they have different priorities. And they disagree on how to respond to Iran's growing power.

The Obama administration's top priority in the region is rolling back and ultimately destroying Salafi jihadist groups—above all, ISIS and al Qaeda. These groups may not represent an existential threat to the United States, but they do pose an immediate danger to the country and its allies. The Obama administration's other major goal is to limit Iran's ability to develop a nuclear weapon, an objective that the recent international agreement has achieved. After the deal, Washington hoped to engage Tehran in regional diplomacy, particularly over Syria, and perhaps even to normalize relations. The administration has not yet realized those hopes, but Obama clearly wants to cooperate with Iran even as he seeks to limit its influence.



Grin and bear it: Barack Obama and King Salman in Riyadh, April 2016

Washington cares much less about other regional goals. Ever since the administration's early efforts to jump-start the Israeli-Palestinian peace process foundered, the U.S. government has moved the issue to the back burner. And in Syria, although the Obama administration has repeatedly said that President Bashar al-Assad must step down as part of a negotiated settlement to the civil war, it has done little to make that happen. The United States has provided scant support to the Syrian opposition, and ever since August 2013, when Obama backed down from the redline he had drawn over the use of chemical weapons, it has stopped threatening to attack Assad directly. ISIS, not the Assad regime, now finds itself in Washington's cross hairs.

Saudi Arabia's priorities are almost exactly the opposite. Saudi kings rarely set out their foreign policy priorities in speeches or published national security strategies. But the regime's actions make clear that its top priority is to roll back Iranian influence across the region. Thus, in Syria, the Saudis are directing their financial, intelligence, and diplomatic resources not primarily against ISIS but against the Assad regime. And the Saudi air force, which had initially joined the U.S.-led campaign against ISIS in 2014, has turned its attention to Iranian-backed rebels in Yemen.

The Saudis see all regional politics through the lens of Iranian advances and, in their more honest moments, through the lens of their

The United States has a crucial interest in maintaining a clear-eyed but close relationship with Saudi Arabia.

own failure to counter such moves earlier. Even before the Arab Spring, the Saudis were on a losing streak. In Iraq, which had previously helped block Iranian access to the Arab world, Tehran's influence grew to unprecedented levels after the 2003 U.S.-led invasion. In Lebanon, after Syrian forces withdrew from the country in 2005, the Saudis supported a coalition of political parties known as the March 14 alliance, which competed against Iran's ally Hezbollah and various pro-Syrian politicians. But even though the March 14 alliance won the 2005 and 2009 parliamentary elections, Hezbollah continued to dominate Lebanese politics, conducting its own foreign policy and defying the government at will. As for the Palestinian territories, after Hamas won the 2006 parliamentary elections there, the Saudis brokered a deal between it and the Palestinian Authority, but the pact soon collapsed, and Hamas moved even closer to Iran.

The Arab Spring only heightened Riyadh's sense of encirclement. When protesters toppled Egyptian President Hosni Mubarak, the Saudis lost one of their most reliable partners. And they blamed the United States, which they saw as having abandoned a loyal ally. They reacted by shoring up states in their own backyard, sending troops into Bahrain to support the Sunni ruling family against a popular uprising by its Shiite-majority population. Although an independent inquiry sponsored by the Bahraini government found no evidence of direct Iranian involvement in the protests, the Saudis continue to blame Tehran for instigating unrest among Shiites in the Gulf monarchies, including Saudi Arabia itself.

The Saudis see the Syrian uprising against Assad as their best chance to reverse Iran's geopolitical gains. They are not happy about the prominent role that ISIS and al Qaeda are playing in the civil war, but they argue that the first step in reducing these extremists' appeal among Sunnis in Syria and elsewhere should be getting rid of Assad. The Saudis also question why the Obama administration has proved so reluctant to support them in this conflict, despite its public position that Assad must go. Many Saudis doubt Obama's credibility; some even wonder if he has secretly decided to support Shiite Iran over the United States' traditional Sunni allies.

The Saudis' fixation on Iran also explains their intervention in Yemen, which they have long seen as within their sphere of influence. After the 2011 Arab Spring uprising there, Saudi Arabia led a diplomatic effort that secured the resignation of President Ali Abdullah Saleh and the formation of a national unity government. Then, in 2014, a rebel militia captured the capital, Sanaa. The Houthis, as the rebel group is known, draw their support from the country's Shiite north. Yemen's Shiites belong to the Zaydi sect, which practices a different form of Shiism from the form that Iranians practice; historically, tribalism and regional identity, not sectarianism, have dominated Yemeni politics. Nonetheless, since the Houthis emerged in the first decade of this century, they have adopted the rhetoric of the Iranian Revolution and looked to Tehran for aid. By all accounts, Iran had no role in the movement's origins, and the Iranians have provided the group with only limited support ever since. Yet the Saudis still see the growth of Houthi power in Yemen as part of an Iranian effort to dominate the Arab world and surround the kingdom. This perception explains why when the Houthis moved to capture the port city of Aden in March 2015, Saudi Arabia responded by launching air strikes and the United Arab Emirates, which also seeks to contain Iran, sent troops to Yemen to check the Houthi advance.

The chaos in Yemen encapsulates the common interests and differing priorities that define the U.S.-Saudi relationship. The Obama administration has focused on fighting al Qaeda and has launched frequent drone strikes against the militants in Yemen. But the Saudi campaign against the Houthis has opened up territory, particularly in Yemen's south, where ISIS and al Qaeda now operate freely. Even though the United States has no particular quarrel with the Houthis, it has provided logistical support for the Saudi-led campaign against them. Washington's desire to mend fences with Riyadh after the Iran nuclear deal, and to sustain a cooperative relationship more generally, has prevailed over its misgivings.

IT'S COMPLICATED

Critics in the U.S. foreign policy establishment point to such strategic contradictions when making the case that the United States should dump Saudi Arabia as an ally. But their strongest argument concerns Saudi support for the fundamentalist Wahhabi, or Salafi, interpretation of Islam. As Chris Murphy, a Democratic senator

from Connecticut, argued in a January 2016 speech, “Though ISIS has perverted Islam . . . the seeds of this perversion are rooted in a much more mainstream version of the faith that derives, in substantial part, from the teachings of Wahhabism.” He went on to demand that Washington end its “effective acquiescence to the Saudi export of intolerant Islam.”

Much of Murphy’s case against the kingdom was well founded. Wahhabism is indeed intolerant, puritanical, and xenophobic, and Saudi Arabia has spent billions of dollars promoting it since the oil boom of the 1970s. Furthermore, ISIS and al Qaeda do share many elements of the Wahhabi worldview, especially regarding the role of Islam in public life.

Yet Murphy’s argument missed a critical detail: the fact that Saudi Arabia has not controlled the global Salafi-Wahhabi movement since the 1980s and that since the 1990s that movement has turned its sights

The Saudis see all regional politics through the lens of Iranian advances.

on the Saudi regime itself. The Salafism that Saudi Arabia started exporting to the Muslim world in the 1970s was, like the version the Saudis practice at home, politically passive. It enjoined believers to accept their governments as long as they were at least nominally Muslim.

During the jihad against the Soviet Union in Afghanistan, however—which both the United States and Saudi Arabia supported—international Salafism morphed into a revolutionary movement. Al Qaeda grew out of that movement, as did ISIS. Yet both groups despise the Saudis, in part because of their ties to the United States and in part because official Saudi clerics regularly condemn the groups for their “deviations” from the true path.

What all of this means is that no amount of U.S. pressure on Saudi Arabia will alter the trajectory of Salafi jihadism, for that ideological movement is now independent of Saudi control. It is true that some young Saudis, schooled in conservative Wahhabism, have gone on to join the terrorist groups. But Saudi Arabia is hardly the main supplier of ISIS recruits today; that dubious distinction goes to Tunisia, the one democratic success to emerge from the Arab Spring and among the most secular of Arab societies. As for the many Westerners who have also joined the group, it is hard to see how Saudi Wahhabism is responsible for their choices.

For all of these reasons, working with the Saudis to fight ISIS, al Qaeda, and similar organizations is more effective than ostracizing the kingdom would be. U.S. intelligence agencies already cooperate with Riyadh extensively, and the results have been impressive. In 2010, a Saudi intelligence tip led to the foiling of a plot to send explosives from Yemen to the United States by courier. Last August, collaboration among the intelligence agencies of Lebanon, Saudi Arabia, and the United States led to the arrest in Beirut of Ahmed al-Mughassil, who is accused of masterminding the 1996 Khobar Towers bombing in Saudi Arabia that killed 19 U.S. airmen. Many other successes have never become public. And although individual Saudis continue to send money to Salafi jihadist organizations, David Cohen, until February 2015 the U.S. undersecretary of the treasury for terrorism and financial intelligence (now deputy director of the CIA), has said that the Saudi government is “deeply committed to ensuring that no money goes to ISIL [as U.S. government officials refer to ISIS], al Qaeda, or the Nusra Front”—the last al Qaeda’s official affiliate in Syria.

On the ideological battlefield, efforts by Saudi clerics to delegitimize Salafi jihadism might seem hypocritical to Westerners, given the benighted views these clerics themselves hold. But attacking the jihadist message from within its own worldview works much better than Western-led propaganda efforts. Washington should do what it can to encourage the development of liberal and tolerant interpretations of Islam. But since it will always be an outsider in these debates, it needs to encourage the insiders—including the Saudis—who are already fighting this battle.

HERE TO STAY

Critics also point to the rise in U.S. oil production as evidence that the U.S.-Saudi alliance has outlived its purpose. But the ties between the two countries have never been about American access to Saudi hydrocarbons. In fact, when the relationship began in the early decades of the Cold War, the United States did not import a drop of oil from the Arabian Peninsula. What has always undergirded the relationship is the importance of Saudi (and the rest of the region’s) oil to the global market. The Persian Gulf still produces about 30 percent of the world’s oil, with Saudi Arabia accounting for over a third of that output. Disruptions in the Gulf thus continue to reverberate worldwide.

To see how important a role Saudi policy still plays in the global market, just ask shale oil producers in North Dakota and Texas how the recent collapse in global prices has affected their business. Although that collapse was largely the result of a surge in supply caused by those same drillers, Saudi Arabia's decision not to cut its production in response to that glut also played a huge role. Put simply, no other country wields more influence in the global oil market—yet another reason why Washington still needs Riyadh.

The last argument frequently made against preserving U.S. ties with the Saudi government has to do with the regime's supposed fragility, which some experts argue makes Riyadh too fragile to serve as a reliable long-term partner. Very few analysts predict that the

The regime has survived, again and again. It will probably continue to do so for some time.

House of Saud is likely to fall sometime soon. But many point to the myriad problems within the kingdom and ask whether the United States should at least take the prospect of the regime crumbling more seriously. Last October, John Hannah, who was Vice President Dick Cheney's national security adviser,

described how the combination of falling oil prices, tensions in the Saudi ruling family, and regional crises "could eventually coalesce into a perfect storm that significantly increases the risk of instability within the kingdom."

There is no doubt that Saudi Arabia faces some serious problems. First among them, the country remains utterly dependent on oil at a time when prices have crashed. Yet this argument overlooks Riyadh's substantial cash reserves, which total more than \$550 billion and have helped the government cushion the blow so far. If prices stay low and the kingdom keeps spending money at its current rate, it could run through those reserves in about five years. It does not, however, face an immediate fiscal crisis, and it can easily borrow against its petroleum reserves. When oil prices collapsed in the 1980s, the Saudis sustained budget deficits for more than 20 years by running down their financial reserves and by borrowing domestically and, to a lesser extent, on international markets. By the end of the 1990s, Saudi government debt had risen to over 100 percent of GDP. Today, that number is less than ten percent. The wolf might be in the neighborhood, but it is not yet at the door.

It is also true, as the doomsayers point out, that the monarchy is going through a tumultuous leadership transition. Ever since 1953, the country has been led by sons of the kingdom's founder, Abd al-Aziz ibn Saud. But the current king, Salman, who is 80 years old, will be the last monarch from that generation. For years, palace watchers have speculated about how leadership would be transferred to the next generation. King Salman has since settled that question, at least for now, by placing enormous power in the hands of his nephew Prince Muhammad bin Nayif and his son Prince Muhammad bin Salman. The former, a veteran Saudi politician in his mid-50s, is a familiar figure; the latter is relatively new to the political scene. Only 30 years old, Muhammad bin Salman has been put in charge not only of the Defense Ministry but also of economic and oil policy, making him the second most powerful person in the country. And he has not hesitated to use that power. He announced plans to privatize part of Saudi Aramco, the state oil company, has made himself the public face of the kingdom's controversial campaign in Yemen, and recently unveiled an ambitious plan, "Saudi Vision 2030," to reduce the country's dependence on oil. The Saudis have made some preliminary moves to implement the plan—they have reduced subsidies on water and electricity, and in May, Salman replaced the country's long-serving oil minister and reorganized a number of government departments—but it remains unclear whether they will meet their ambitious targets.

Salman's decision to concentrate so much authority in the hands of just two family members has caused grumbling among the other powerful royal cousins, many of whom expected to inherit at least some of the influence their fathers wielded in the old, more consensual days. This grumbling has given rise to plenty of rumors—a common feature of court politics—but so far, no signs of a serious feud have materialized. The jousting today is nothing like what occurred in the late 1950s and early 1960s, when King Saud and Crown Prince Faisal openly struggled for power, leading to frequent changes in top officials, long absences from the country by senior princes, the strategic deployment of military units loyal to different princes, and the intervention of the religious establishment into family politics.

Then as now, many Middle East watchers predicted that such conflict would spell the end of the Saudi regime. They also pointed to external forces: first the republican Arab nationalism of Gamal Abdel

Nasser and then the Iranian Revolution of 1979. In 2003, Robert Baer, a well-informed former U.S. intelligence official, writing in *The Atlantic*, said that “signs of impending disaster are everywhere” and that “sometime soon, one way or another, the House of Saud is coming down.” In 2011, Karen Elliott House, a respected journalist, warned in *The Wall Street Journal* that the Arab Spring would soon wash over Saudi Arabia as well. Yet the regime has survived, again and again. And it will probably continue to do so for some time.

FRIENDS WITH BENEFITS

Washington’s relationship with Riyadh will never find many enthusiastic defenders in the United States. Saudi Arabia’s human rights abuses, its promotion of religious fundamentalism, its obsession with Iran, and its refusal to focus on fighting U.S. enemies—all raise the question of whether the Saudis are worth the trouble.

They are. Intelligence cooperation against Salafi jihadist groups benefits both the United States and Saudi Arabia, and efforts to reduce the financial resources available to terrorists have proved particularly successful. On energy, sustaining a working relationship will not mean that the Saudis will always do what Washington wants when it comes to adjusting production levels, but it does mean that they will at least listen to U.S. arguments. Then there are the tens of thousands of U.S.-educated Saudis, many of whom are working to bring about gradual reform and want to maintain a strong relationship with the United States. If Washington initiated a public divorce, it would cut this influential community off at the knees.

More important, the United States should not distance itself from one of the few Arab countries still able to govern itself and influence events in the region. Weak and failed states lie at the root of today’s crises in the Middle East. From Libya to Iraq and Syria to Yemen, political vacuums have created civil wars, drawn in regional powers, and provided safe havens for terrorists and extremists.

The Obama administration’s overtures toward Iran make enormous geopolitical sense in this context. Iran governs its territory fairly effectively and wields influence over many of these civil wars. Unlike ISIS and al Qaeda, it also has an address and a phone number. Americans can talk to the Iranians and deal with them using normal diplomatic tools: incentives and deterrents, carrots and sticks—just what led to the nuclear deal.

The same is true of Saudi Arabia. It maintains relative domestic stability in a chaotic region, and it helps shape the political fights that are determining the future of that region. Compared with the Iranian regime, however, Riyadh shares more foreign policy goals with Washington and is far more eager to cooperate.

Washington should thus maintain the relationship for now, while acknowledging its limits. The two countries' differences in priorities will not disappear anytime soon. The next U.S. president will probably not take stronger action against the Assad regime and will inevitably focus more on ISIS and al Qaeda than on Iran and its allies. But strengthening U.S.-Saudi ties will not require grand gestures. It simply needs better management. Washington should reaffirm the importance of the security relationship, nurture daily cooperation on important issues such as counterterrorism, and encourage some honesty, from both sides, about their different goals, so that neither will surprise the other. The reason the Syrian redline incident alarmed the Saudis so much is because Obama's decisions caught them completely unawares.

In Yemen, the United States can use its influence over Saudi Arabia to help it find an exit ramp. A Houthi delegation visited Riyadh in April 2016, suggesting that the Saudis aren't opposed to a political solution to the crisis. Yemen has suffered from instability for years, and no new deal will change that. But an agreement that restored a mutually acceptable government in Sanaa and limited the military reach of the Houthis to their natural base in Yemen's north would represent an improvement over the current situation. It might also allow a new Yemeni government to concentrate its resources on the ISIS and al Qaeda presence in the country. There are encouraging signs that the Saudis and the Emiratis are now concentrating some of their military efforts in Yemen against al Qaeda.

The Saudis still need U.S. arms and military training. Washington should provide both, but it should do so in a way that nudges the Saudis toward a more accommodating relationship with the Iraqi government. Although the Saudis have finally reestablished their embassy in Baghdad, they have refused to offer tangible political, diplomatic, or financial support to Iraqi Prime Minister Haider al-Abadi, which has weakened his efforts to build an Iraqi government that is less reliant on Iran. Were the Saudis to change course, it could pay long-term dividends, both in the fight against ISIS and in

helping reduce the animosity between Sunni Iraqis and the central government. The United States and Saudi Arabia would both benefit, and Iran would lose its exclusive influence in Baghdad.

What Washington should not do, however, is encourage the Saudis to “share” the region with Iran, as Obama has expressed an interest in doing. The Saudis would interpret any U.S. effort to mediate between Riyadh and Tehran, or even any calls for Saudi Arabia to come to terms with Iran, as an effort to consolidate Iranian gains at the expense of the Saudis and their allies. Washington should simply continue its own cautious effort to improve its relations with Tehran. The Saudi leadership is made up of supreme realists—that is how they have stayed in power for so long—and should U.S.-Iranian ties improve, the Saudis will read the tea leaves and adjust to the new reality on their own. Furthermore, the collapse of oil prices might do more to bring Riyadh and Tehran to the table in the next year than anything that Washington could do or say.

Such arguments for sustaining a positive but transactional alliance with Saudi Arabia have little emotional appeal. Relationships based on common interests rather than common values rarely do. But in a Middle East that shows no signs of stabilizing anytime soon, it would be foolish for Washington to ignore how much it benefits from a close relationship with Riyadh. 🌐

The Truth About American Unemployment

How to Grow the Country's Labor Force

Jason Furman

In the wake of the financial crisis of 2008 and the Great Recession that followed, many economists worried that even if the U.S. economy improved, unemployment would remain high for years to come. Some warned darkly of a “jobless recovery.” Those fears have proved unfounded: since peaking at ten percent in October 2009, the U.S. unemployment rate has fallen by half and is now lower than it was in the years leading up to the crisis. Beyond the basic unemployment rate, a broad range of evidence shows that the labor market has largely returned to good health. Compared with earlier in the recovery, far fewer workers are underemployed or underutilized. Long-term unemployment has fallen steadily, from an all-time high of four percent of the labor force in early 2010 to just over one percent today. And adjusting for inflation, average hourly wages have been increasing for more than three years.

Yet one aspect of the labor market has stubbornly refused to improve: the labor-force participation rate. The share of Americans at least 16 years old who are working or looking for work remains three percentage points lower today than it was prior to the onset of the recession in December 2007. This is the case even though the unemployment rate has improved, because the unemployment figure does not include those who have left the work force altogether.

Most of the decline in the labor-force participation rate has resulted from a large retirement increase that began in 2008. That year, the oldest baby boomers turned 62 and became eligible for Social Security. An aging population, however, cannot fully account for the drop:

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labor-force participation is down even among prime-age adults—those between the ages of 25 and 54.

That decline is not unique to this particular economic recovery. Instead, it is the continuation of a troubling pattern that began among men more than 60 years ago and among women about 15 years ago. In

In 1953, 97 percent of prime-age American men participated in the labor force; today, that figure is down to 88 percent.

1953, 97 percent of prime-age American men participated in the labor force; today, that figure is down to 88 percent. In 1999, after decades during which millions of women began to work outside the home, 77 percent of prime-age American women participated in the labor force. Today, that figure has fallen to 74 percent. During both time periods, the United States experienced larger

drops in labor-force participation rates and lower overall participation than most other advanced economies.

It is possible to view a drop in overall labor-force participation rates as a sign of progress: more people can now support themselves in retirement without having to continue working into old age, and many others are opting to stay in school longer, or raise families, or simply work less and enjoy more leisure time. But the evidence is mounting that the decline in prime-age participation represents a genuine problem for the U.S. economy and for American society. First, it poses a challenge to sustainable long-term economic growth, as a larger share of the population becomes more dependent on the economic output of a relatively smaller group of workers. Second, and even more important, is the human toll of involuntary joblessness. The loss of earnings from workers who move out of the labor force puts enormous strain on households, affecting not only workers themselves but also their spouses, children, and other dependents. Many people who stay out of work for long periods find that their incomes remain lower even when they ultimately manage to find new jobs.

The effects of joblessness also reach far beyond household finances. For decades, researchers have found that long-lasting unemployment can have severe consequences for mental health, physical health, and even mortality. Recent years have seen a massive increase in opioid drug abuse and an associated rise in overdose deaths and suicides among Americans without college degrees—the same group that has



Skills to pay the bills: iron-working apprentices training in West Virginia, March 2012

seen its labor-force participation decline most precipitously over the past five decades. In other words, a lack of work doesn't simply mean less income. It can lead to more profound losses as well.

The good news is that there are a number of things that the government can do to help address the problem; indeed, the fact that the widespread decline in labor-force participation has played out differently in different countries only underscores the extent to which economic policy can make a difference. U.S. President Barack Obama has outlined a set of bold policies—many of which depart from simplistic orthodox prescriptions—that would significantly improve how the U.S. labor market functions and help more Americans obtain higher-paying jobs.

FROM FOOTNOTE TO HEADLINE

Labor-force participation tends to decline in recessions, as more people exit the work force and fewer people enter it. That short-term effect tends to fade away as the economy recovers. But in recent decades, longer-term trends have drowned out those short-term cycles. For example, after recovering from the recession of 1990–91, the U.S. economy enjoyed an almost unprecedented boom during the rest of the 1990s. Yet by 2000, neither the labor-force participation rate for prime-age men nor their employment-population ratio (a related

measure that includes only those who are actively working and excludes those looking for work) had returned to its pre-recession peak.

That outcome—a recovery in the labor market but with fewer prime-age men in the work force—was not unique to the boom years of the 1990s. In all but one period of recovery since the mid-1950s, the employment-population ratio for prime-age men failed to reach the peak it had achieved before the previous recession. But few observers took note. As long as overall participation in the labor force was increasing—which it was from the end of World War II until 2000, as millions of women entered the work force and the baby boomers entered their prime working years—the decline in the labor-force participation rate for prime-age men remained at most a footnote.

But around 2000, women's participation rates also began to fall. And around 2008, the first cohort of baby boomers began to retire. When the worst recession since the Great Depression hit at the same time, all three phenomena converged to form a perfect storm: the number of Americans either leaving the work force or failing to enter it exceeded the number who were joining it.

Since then, older Americans (those 55 and up) have seen their labor-force participation rates rise. This is at least in part because today, older people tend to work at jobs that are less physically demanding than the ones that older workers held in the past. Meanwhile, younger people have experienced large drops in labor-force participation but have also begun to attend college at far higher rates than in previous decades. Consequently, the share of “idle” younger people (those neither in school nor working) has not risen over the long run, and although many Americans have delayed entering the work force, many more of them will have better skills when they eventually do.

SUPPLY OR DEMAND?

Because men's participation in the labor force has been declining for decades, it makes sense to focus on that segment of the population when trying to understand what lies behind the overall long-term trend. All groups of prime-age men have experienced a drop in participation, but the less educated have suffered disproportionately. Those with at most a high school education saw their participation rate fall from 97 percent in 1964 to 83 percent in 2015. In contrast, the

decrease over the same period for those with a college degree was far smaller: from 98 percent to 94 percent. (More recently, prime-age women have seen a similar pattern.)

One possible explanation for these declines is that the supply curve of labor has shifted—that is, more men simply do not want to work. In this vein, some have speculated that as more married women have entered the labor force, more of their husbands have decided to not work or have opted to take a substantial amount of time off to pursue job training or education or to care for children. But the data suggest that is not what is happening: in fact, less than a fifth of prime-age men who are not in the labor force have a working spouse, and that figure has actually decreased during that last 50 years, notwithstanding the large overall increase in the number of women who work. This owes, in part, to an increase in what economists call “assortative mating”: men and women who are successfully employed are increasingly coupling up with others who are successfully employed, rather than with partners who do not want to work.

Other proponents of supply-based explanations claim that government programs—disability insurance, in particular—have made staying out of the labor force more attractive today than in the past. Here again the data suggest otherwise: from 1967 until 2014, the percentage of prime-age men receiving disability insurance rose very little, from one percent to three percent, which accounts for only a small share of the eight-percentage-point rise in nonparticipation over this period. So disability insurance explains at most one-quarter of the fall in participation rates since 1967. But even that is likely an overestimate, because at least some of the increase in the number of men receiving disability insurance payments is probably a consequence of men who are unable to work leaving the labor force rather than a cause of it.

What is more, over the same period, other government assistance programs became increasingly hard to access. This was particularly true for people who were out of work, as many state governments established stricter eligibility standards for unemployment insurance and the federal government cut spending on traditional cash welfare payments. Meanwhile, few nonworking, able-bodied adult men without children are now eligible to receive nutritional assistance. Government aid thus explains at most only a small fraction of the drop in prime-age male labor-force participation, casting doubt on another set of supply-side theories.

The most significant weakness of labor supply explanations is that they account for only one piece of data: the drop in the quantity of labor supplied. By itself, that decline would tend to lead to rising wages as workers became more scarce. Yet in recent decades, less educated Americans have actually suffered a reduction in their relative wages

A lack of work doesn't simply mean less income. It can lead to more profound losses as well.

(the amount they earn compared to what other groups do). From 1975 until 2014, those with a high school degree or less watched their relative wages fall from more than 80 percent of the amount earned by full-time, full-year workers with at least a college degree to less than 60 percent. This fall would

not have happened if a large swath of less educated men had simply chosen to stop working and to rely on their partners' incomes, disability insurance, or something else—a shift that, all things being equal, would have led to an increase in their relative wages and not a decrease.

The inability of supply-side explanations to account for both falling labor-force participation and lower relative wages suggests that something else is going on: the demand curve for labor has shifted, or has at least shifted more than the supply curve. In other words, falling demand for less skilled workers has simultaneously reduced their employment and lowered their wages.

Economists do not have a clear answer for why the demand for lower-skilled labor is falling. One possible cause is the long-term drop in manufacturing jobs that has resulted from technological advances and the globalization of markets. This decline has eliminated millions of U.S. manufacturing jobs over the past several decades, leaving many people—mostly men—unable to find new jobs. Another potential factor is what economists call “skill-biased technological change”: advances that benefit workers with certain skill sets more than others. Such changes have increased the demand for more skilled workers while hollowing out jobs in the middle to lower end of the skill distribution.

Another possible reason that the demand for workers has fallen is the increase in the number of previously incarcerated people in the population—a byproduct of the massive growth in recent decades in the number of Americans behind bars. The vast majority of those who have served time in prison are men, and they tend to face substantially

lower demand for their labor once they are released. In many states, the formerly incarcerated are legally barred from a significant number of jobs by occupational licensing rules or other restrictions on the hiring of those who have been incarcerated.

FLEXIBLE VS. SUPPORTIVE

A wide range of developed countries have experienced changes in labor demand similar to those in the United States, with increasing demand for skilled labor and a reduced share of manufacturing jobs. But judging from the available data, between around 1980 and around 2010, the United States underwent both a larger decline in prime-age male participation and a more significant increase in economic inequality than nearly any other member of the Organization for Economic Cooperation and Development (OECD). This suggests that government policies and institutions play a large role in shaping how an economy responds to such changes.

To understand that role, it is helpful to compare the United States to France, a country with a very different set of institutions and rules. Economists describe the United States' labor market as being far more "flexible" than France's. In the United States, governments and institutions such as labor unions place relatively few barriers in the way of employers who want to change whom they employ and what they pay. In France, on the other hand, "supportive" labor-market policies are intended to prop up both employment levels and wages. In the United States, 12 percent of employees are covered by collective-bargaining agreements, and it is relatively easy for private-sector firms to hire and fire workers. In France, by contrast, more than 90 percent of workers are covered by collective-bargaining agreements, and most employees enjoy a substantial set of protections, including generous severance payments and restrictions on dismissal. Furthermore, the minimum wage for adults in France is around 50 percent higher than the federal minimum wage in the United States.

Some argue that the American-style labor market makes it easier for everyone who wants a job to get one, whereas policies such as a minimum wage introduce inefficiencies and inflexibilities into the economy. By that logic, the U.S. labor market should easily outperform the French labor market in terms of employment. And yet, the proportion of prime-age men in the labor force is five percent lower in the United States than it is in France. Even taking into account France's higher

unemployment rate, France still has had a higher percentage of prime-age men in jobs than the United States has in every year since 2001.

The U.S.-French comparison is not an isolated example. The United States has the lowest level of labor-market regulation, the fewest employment protections, and the third-lowest minimum cost of labor among the OECD countries—attributes that should encourage better labor-force participation, according to conventional economic wisdom. But the United States ranks toward the bottom of OECD countries in terms of the percentage of prime-age men actively working, and most of the countries that rank lower—such as Greece, Italy, Portugal, and Spain—are currently suffering from historically high overall unemployment rates. This poor U.S. performance reflects a long-term trend: since 1990, the United States has had the second-largest increase in prime-age male nonparticipation among OECD members. The gap between theory and reality results partly from the fact that the U.S. government does far less than other countries to support workers. The United States spends just 0.1 percent of GDP on so-called active labor-market policies, such as job-search assistance and job training, much less than the OECD average of 0.6 percent of GDP and less than every other OECD country, except Chile and Mexico, spends.

The picture is no better when it comes to the labor-force participation rates of American women. The proportion of prime-age American women currently working places the United States at 26 out of the 34 OECD countries. The OECD countries that fare worse than the United States on this measure either have unusually high overall unemployment rates (the peripheral European economies, for instance) or tend to have different cultural norms relating to women taking part in formal employment (Mexico and Turkey, for example). Moreover, for the past quarter century, most other OECD countries have seen the participation of prime-age women increase, whereas in the United States, it has moved in the opposite direction.

This, too, stems partly from the way that the greater degree of flexibility for employers in the U.S. labor market discourages participation, particularly for women. Women everywhere bear a disproportionate burden when it comes to childcare and housework. But the United States is the only OECD country that does not guarantee paid leave for family reasons, such as the birth of a child, or for illness. And while the gross cost of U.S. childcare is close to the OECD average, subsidies for childcare

in the United States are considerably lower than the OECD average, which means that the net cost of childcare in the United States is among the highest of any advanced economy. Moreover, although the United States generally has low tax rates, the U.S. tax system imposes a relatively high rate on secondary earners, which creates a disincentive for stay-at-home parents to enter (or reenter) the work force.

Many other advanced economies have serious problems in their labor markets, especially when it comes to their youngest and oldest workers and women's representation in management positions. But the difference in prime-age labor-force participation between the United States and OECD countries with less flexible labor markets suggests that Americans might have something to learn about creating the conditions for meaningful employment. It also reveals a flaw in the standard view about the tradeoffs between flexibility and supportive labor policies. Contrary to the conventional wisdom, it is necessary to make labor markets more supportive of workers in order to make those markets more efficient in ways that would benefit employees and businesses alike. But to do so, the United States will need to move beyond outdated prescriptions for boosting employment and participation in the work force.

WORK TO DO

Just as there is no single cause for the decline in the labor-force participation rate, there is no single way to address it. And the problems and solutions associated with the decline vary from country to country. But in the United States, Obama has decided to tackle the issue with a set of proposals that would create meaningful work opportunities for more Americans.

As the past eight years have made clear, the effect of recessions on the labor market is becoming only more pronounced. One way to prevent worse outcomes in the future would be for the federal government to take steps that would increase aggregate demand in the economy. Investing more in public infrastructure, for example, can create well-paying employment opportunities for workers without higher education. To this end, Obama has proposed ambitious new investments in clean infrastructure that would help build a twenty-first-century national transportation system.

To protect the unemployed during future economic downturns, Obama has also proposed establishing an automatic extension of the

amount of time that people can claim unemployment insurance during a recession, providing up to 52 additional weeks of benefits in states suffering from rapid increases in unemployment (for a total of up to 78 weeks in most states). The government can also help deepen the “connective tissue” in the labor market by reforming community colleges and training systems to help place people in jobs, providing recipients of unemployment insurance with more help in finding new jobs, and broadening the eligibility requirements for unemployment insurance.

Other reforms to the unemployment insurance system would also help more people find work. Right now, workers receive unemployment insurance when they are laid off, but most do not get assistance when

Obama is pushing for bold policies that depart from economic orthodoxy and would significantly improve the U.S. labor market.

their hours are reduced. That discourages employers from avoiding layoffs by temporarily reducing hours across the board when demand for their products or services falls and also discourages workers from accepting lighter schedules. One solution to this dilemma would be to arrange the unemployment insurance system to

promote work sharing by allowing groups of workers whose hours were temporarily reduced to receive unemployment benefits to make up for some of their lost earnings. Obama’s most recent budget provides grants and additional incentives to create work-sharing programs for states that haven’t already done so. By removing the incentives for firms to slash jobs rather than merely cut back on hours, these programs would help prevent job losses during an economic downturn, as a similar program did in Germany during the most recent recession.

In addition to his plan to promote work sharing, Obama has also proposed a system of wage insurance that would replace up to 50 percent of lost wages (up to a limit of \$10,000) for two years for unemployed workers who take new, lower-paying jobs. Such a system would offer protection against reduced earnings and create an incentive for the unemployed to get back into employment quickly and to remain in the work force.

Since the labor-force participation gap between the less educated and the more educated has grown over the past several decades, strengthening the U.S. educational system and helping more Americans finish

high school and college have become more important than ever. The Obama administration has sought to do this by expanding high-quality early education, maintaining rigorous standards for students, supporting successful teachers, making college more affordable, and holding institutions of higher education accountable to their students.

There are also a number of changes to federal tax policy that would make it easier for people who want to work to do so. For instance, secondary earners are more responsive to tax rates than primary earners, and they face higher rates in the United States than in most advanced countries because the U.S. tax system is largely based on household income rather than individual income. Obama has proposed creating a new tax credit that would reduce the effective penalty imposed on secondary earners. In addition, boosting the Earned Income Tax Credit for childless workers and noncustodial parents—a move supported not only by Obama but also by the Republican Speaker of the House, Paul Ryan—would make work more rewarding for lower-skilled individuals and thus encourage participation in the work force.

Federal policy can also help ensure that flexibility in the U.S. labor market benefits employers and employees alike. Improving flexibility in the labor market doesn't just mean making it easier for the unemployed to find work; it also involves assisting people who are currently employed. Some important steps along those lines would be to require the provision of paid family leave and guaranteed sick days and to provide more government subsidies for childcare and early learning programs—both proposals that Obama has supported. In fact, a recent study by the economists Francine Blau and Lawrence Kahn found that the labor-force participation rate for American women would be around four percentage points higher if the United States adopted family-friendly labor-market policies comparable to those of other OECD countries.

Another obstacle to improving the U.S. labor market is the fact that around a quarter of jobs now require an occupational license, up from just five percent in the 1950s. In some states, one must obtain an occupational license to work as a florist or an interior decorator, for example, even though it is highly unlikely that licensing in such professions meaningfully protects consumers. State-level reforms of occupational licensing would help make it easier for people who lose one job to move to a new one, possibly in a new location, and a number of states have begun to take action in this area. And repealing burdensome local land-use restrictions would

increase the supply of housing, making it easier for workers to move to pursue better opportunities.

A number of far-reaching initiatives in other areas would also have a profound positive effect on the U.S. work force. Reforms to the criminal justice system would mitigate the negative effects of mass incarceration on labor-force participation. The most important steps supported by Obama include reducing mandatory minimum sentences (especially for nonviolent offenders), improving inmates' prospects for reentry into the labor force by providing them with better educational and training opportunities while in prison, and placing fewer restraints on hiring ex-offenders. Comprehensive immigration reform would also help. Although it would not directly boost the labor-force participation rate of native-born workers, immigration reform would raise the overall rate by bringing in new workers of prime working age, offsetting some of the larger economic challenges associated with a shrinking work force.

Finally, despite the claims of some economists, growing inequality is neither a necessary cause nor an inevitable consequence of better economic performance, and some evidence suggests that steps to reduce inequality (or to at least slow its growth) would also improve labor-force participation. To that end, the federal government must raise the minimum wage and help ensure that workers have a strong voice in the labor market by supporting collective-bargaining rights. These policies would help level the playing field for employees, increasing the incentives to work.

The long-term decline in labor-force participation is a serious challenge, one that the United States must tackle as it moves farther away from the shadow of the Great Recession. The decline calls into question economic orthodoxy and provides an opening for less traditional policies that would benefit American firms, families, and workers alike by stemming the drop in the size of the U.S. work force. Such policies are not, in the long run, zero-sum: by strengthening incentives to participate in the labor market, they would increase the efficiency and performance of the U.S. economy, benefiting everyone.

The next half century will not offer the favorable demographics and mass entry of women into the labor force that the last half century supplied. So to promote a stronger, larger U.S. work force, policymakers must take action and recognize that adherence to simplistic traditional policy prescriptions would leave the United States facing a weaker economic outlook for decades to come. 🌐

Human Work in the Robotic Future

Policy for the Age of Automation

Andrew McAfee and Erik Brynjolfsson

The promises of science fiction are quickly becoming workaday realities. Cars and trucks are starting to drive themselves in normal traffic. Machines have begun to understand our speech, figure out what we want, and satisfy our requests. They have learned to write clean prose, generate novel scientific hypotheses (that are supported by later research), compose evocative music, and beat us, quite literally, at our own games: chess, poker, and even go.

This technological surge is just getting started, and there's much more to come. For one thing, the fundamental building blocks that launched it will continue to improve rapidly. The costs of processing, memory, bandwidth, sensors, and storage continue to fall exponentially. Cloud computing will make all these resources available on demand across the world. Digital data will become only more pervasive, letting us run experiments, test theories, and learn at an ever-greater scale. And the billions of humans around the world are growing increasingly connected; they're not only tapping into the world's knowledge (much of which is available for free) but also expanding and remixing it. This means that the global population of innovators, entrepreneurs, and geeks is growing quickly and, with it, the potential for breakthroughs.

Most important, humanity has recently become much better at building machines that can figure things out on their own. By studying

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lots of examples, identifying relevant patterns, and applying them to new examples, computers have been able to achieve human and super-human levels of performance in a range of tasks: recognizing street signs, parsing human speech, identifying credit fraud, modeling how materials will behave under different conditions, and more.

Building machines that can learn on their own is critical, because when it comes to accomplishing many tasks, we humans “know more than we can tell,” as the scientist and philosopher Michael Polanyi put it. Historically, this served as a hard barrier to digitizing much work: after all, if no human could explain all the steps followed when completing a task, then no programmer could embed those rules in software. Recent advances mean that “Polanyi’s paradox” is not the barrier it once was; machines can learn even when humans can’t teach them.

As a result, jobs that involve matching patterns, in particular, from customer service to medical diagnosis, will increasingly be performed by machines. Because U.S. companies are both the world’s most prolific producers and the world’s most enthusiastic consumers of technology, many of the effects of the digital revolution will likely be seen first in the United States. Low-wage jobs are especially at risk: in its 2016 report to the president, the U.S. Council of Economic Advisers estimated that 83 percent of jobs paying less than \$20 per hour could be automated.

Such a radical reshaping of work will call for new policies to protect the vulnerable while reaping the gains of the new age. The choices made now will prove particularly consequential. The wrong interventions will hurt the economic prospects of millions of people around the world and leave them losing a race against the machines, while the right ones will give them the best chance of keeping up as technology speeds forward.

How to tell the difference? Two basic principles should guide decisions: allow flexibility and experimentation instead of imposing constraints, and directly encourage work instead of planning for its obsolescence.

A MORE FLEXIBLE ECONOMY

In times of rapid change, when the world is even less predictable than usual, people and organizations need to be given greater freedom to experiment and innovate. In other words, when one aspect of the capitalist dynamic of creative destruction is speeding up—in this case,

the substitution of digital technologies for cognitive work—the right response is to encourage the other elements of the system to also move faster. Everything from individual tasks to entire industries is being disrupted, so it’s foolish to try to lock in place select elements of the existing order. Yet often, the temptation to try to preserve the status quo has proved irresistible.

Even though the times call for flexibility, policymakers seem to be moving in the opposite direction. In recent decades in the United States, business dynamism and labor-market fluidity have in fact decreased. Entrepreneurship, job growth within young companies, worker moves from one job or city to another—these and other similar phenomena have all shown steady declines that predate the Great Recession.

The decay of business dynamism appears to be the result of what the economist John Haltiwanger has characterized as “death by a thousand cuts.” Many of these cuts are restrictions placed on some kinds of work. According to the economist Morris Kleiner, whereas only around five percent of American workers in the 1950s were required to have a state license to do their jobs, by 2008, the figure had climbed to almost 30 percent. Some of the requirements are plainly absurd: in Tennessee, a hair shampooer must complete 70 days of training and two exams, whereas the average emergency medical technician needs just 33 days of training. As Jason Furman, chair of the Council of Economic Advisers, said in 2015, “Licensing may be contributing to a range of challenges facing labor markets, including reduced labor force participation, higher long-term unemployment, and higher part-time employment.”

Some states are already taking action. In early 2016, legislators in North Carolina proposed eliminating 15 licensing boards, including those for irrigation contractors and pastoral counselors. Such efforts should be expanded. It is far from clear how large the gains from easing excessive requirements would be, but it’s well worth finding out.

LEVELING THE PLAYING FIELD

Some of the barriers facing young, fast-growing, technology-centric companies today illustrate another kind of inflexibility: entrenched interests working to preserve their positions. Tesla sells its popular electric cars at fixed prices with no haggling, but laws preventing

automakers from acting as retailers bar the company from doing so at its own facilities in six states, which together account for 18 percent of the U.S. new-car market. The ride-hailing company Uber has had to

Even though the times call for flexibility, policymakers seem to be moving in the opposite direction.

fight taxi regulators in city after city, even though customers clearly value its convenience and safety and drivers value its income and flexibility. These battles provide strong evidence of “regulatory capture,” a phenomenon in which agencies act on behalf of special interests instead of the public. Start-

ups should certainly pay their fair share of taxes and operate safely, but they shouldn’t be kept out of markets by incumbents’ machinations.

In the regulatory wars between start-ups and incumbents, defenders of the status quo often claim to be fighting to maintain a level playing field. But today’s playing fields are far from level; they’re often tilted toward established companies. More fundamentally, many decades-old regulations designed to protect consumers from so-called information asymmetries no longer make sense in the information age. When it comes to many goods and services, consumers now know more than ever, from the exact route a Lyft driver took to the previous guests’ ratings of an Airbnb host.

The ability to rate Uber and Lyft drivers after every trip goes a long way toward explaining why they often take such care to keep their cars clean, and it provides an efficient way to weed out drivers who are less customer-oriented. Even the most diligent taxi cab regulator would find it impossible to conduct meaningful observations that frequently. As Eric Spiegelman, the president of the Los Angeles Taxicab Commission, has admitted, “Uber’s method is better for passengers.” In more and more markets, as digital technologies make relevant information widely available, the need for centralized regulation should go down, not up.

Similar breakthroughs in transparency have transformed other parts of the economy, from ski resorts that cannot exaggerate their snowfall to airlines that cannot hide their record of on-time arrivals. There is little need for lemon laws, after all, when everyone knows which cars are the lemons. As technology races ahead, there will be substantial opportunities to relevel the playing fields on which businesses compete. The innovation surge that is under way now will

highlight the stark differences between actual capitalism, where competition among companies yields great gains for people, and crony capitalism, in which incumbents and their allies in government strive to avoid disruptions. It's clear which is the better type, and so policy should promote it.

Flexibility will also require better data, since experimenting works only if one knows whether a given effort is having the desired effect. It is unfortunate, then, that the U.S. Congress cut the budget for the Bureau of Labor Statistics by 11 percent in real terms between 2010 and 2015. Businesses, policymakers, and academics all make heavy use of the evidence collected by the federal government about the U.S. work force.

A much more encouraging development is President Barack Obama's Open Government Initiative. In 2013, Obama signed an executive order making open and machine-readable data "the new default for government information." At all levels of the government, the United States needs more such efforts, which would prove helpful to all sorts of decision-makers. As more and more digital data become available, there will be even more opportunities for sharing information to improve policy, and the government should play a key role in this process. As Larry Summers, a former secretary of the treasury, recently put it, "Data is the ultimate public good."

REDEFINING EMPLOYMENT

The relationship between employers and the people who work for them is another area where the United States faces choices between rigidity and flexibility. Today, companies must designate their workers as either employees or contractors. This classification, which is overseen by the Internal Revenue Service, affects whether workers receive overtime pay, are eligible for compensation for on-the-job injuries, and have the right to organize into unions.

The last decade has seen a substantial rise in various forms of contracting. According to the economists Lawrence Katz and Alan Krueger, the percentage of American workers in "alternative arrangements," including temporary staffing, contracting, and on-call work, increased from ten percent in 2005 to 16 percent in 2015. This trend should accelerate with the continued growth of the "on-demand economy," epitomized by Uber and Lyft and the freelancer marketplaces TaskRabbit and Upwork. Although only about 0.4 percent of the U.S.

work force (about 600,000 people) currently earns a primary living through these digital intermediaries, this figure will likely grow rapidly.

These significant shifts in the nature of employment have prompted calls for rethinking the way workers are classified. Krueger and Seth Harris, a former deputy secretary of labor, have proposed the creation of a new “independent worker” designation. These workers would not be eligible for overtime pay or un-



employment insurance. But they would enjoy the protection of federal antidiscrimination statutes and have the right to organize, and their employers, whether online or offline, would withhold taxes and make payroll tax contributions. Proposals such as this deserve serious consideration, including of how to implement them without making decisions about worker classification more difficult. In fact, a more flexible approach might be to eliminate as many arbitrary distinctions between employees and independent workers as possible by making benefits portable rather than tightly linked to any particular employer.

It is tempting to protect the kinds of full-time salaried jobs that gave rise to the United States’ large and prosperous middle class. But policymakers should keep two things in mind. First, not everyone wants a classic industrial-era job. Second, it simply isn’t possible to regulate the postwar middle class back into existence. Attempts to do so—for example, by making it more difficult for companies to hire anyone except full-time salaried employees—will only result in a protected community of jobholders that shrinks over time and an ever-growing group excluded from participation.

More broadly, as technology transforms the economy, policymakers will face all manner of new and unpredicted choices. In making them, they should return to the basics: remove rigidities, provide flexibility, and



boost resilience. Should schools have greater freedom to reward their best-performing teachers and remove their worst? Yes, especially in light of research showing how much teacher quality influences lifetime student earnings. Should entry-level workers have to sign restrictive noncompete agreements? No. Should the federal government experiment with extending student loan guarantees to nontra-

ditional job-preparation programs, such as “nanodegree” courses and “coding boot camps,” even if they’re offered by unaccredited institutions? Yes.

Of course, flexibility and dynamism do not trump all other goals. Workplace health and safety are essential, as are clear property rights and legal protections that make it possible to assign responsibility for harms. The key is to distinguish legitimate protections from those that are designed primarily to protect incumbents and impede change.

MONEY FOR NOTHING?

The second principle, that policy should directly encourage labor, has a straightforward justification: work’s value both for individuals and for communities goes well beyond its financial role. As Voltaire put it, “Work saves us from three great evils: boredom, vice, and need.” But isn’t work itself becoming passé, thanks to automation? A 2013 study by Carl Benedikt Frey and Michael Osborne of Oxford University, which predicted the automation of nearly half of U.S. jobs, would certainly seem to call for radical policy changes.

The most widely discussed of these nowadays is the provision of a universal basic income: a cash award given by the government to all citizens, regardless of need. A universal basic income has attracted broad support in the past—from Martin Luther King, Jr., to President Richard Nixon—and its popularity is once more on the rise. The governments of Finland and Switzerland, as well as several Dutch cities, have made moves toward rolling out a universal basic income. In the United States, the idea boasts a diverse group of champions, including the libertarian social scientist Charles Murray, the technology entrepreneur Sam Altman, and the former service employees' union president Andy Stern.

A universal basic income has obvious appeal in a job-light future where a great many people can't earn a living from their labor, but it would be prohibitively expensive to provide even a small universal income to a population as large as that of the United States. In 2014, there were about 134 million households in the country, averaging 2.6 people each. The federal poverty level that year for a household of that size was approximately \$18,000 per year. A universal basic income of that amount, then, would cost about \$2.4 trillion per year, or more than 75 percent of all federal tax receipts in 2014.

At current levels of national income, this kind of universal basic income is unworkable. As a result, most realistic proposals for one today are far more modest and often not truly universal, since they would extend the cash award only to low-income groups. It is hard to see how less ambitious versions of the policy would mitigate the effects of large-scale, technology-induced joblessness.

BACK TO WORK

Fortunately, there is no need for policies for a jobless economy yet, for the simple reason that the era of mass technological unemployment is not imminent. The Frey and Osborne study and the analysis in the Council of Economic Advisers' report offered no time horizon for their job-loss forecasts. And as the authors of the underlying research acknowledge, its methodology relies on subjective judgments about jobs' susceptibility to automation and makes no attempt to estimate any technology-enabled job gains. Nor is there any sign that the United States is currently approaching "peak jobs." From the end of the recession in July 2009 to March 2016, the country saw net gains of, on average, more than 160,000 jobs per month. Over

that time, the unemployment rate fell from a high of ten percent to five percent.

Despite this strong and consistent job growth, however, there are clear signs that this is an atypical recovery and that significant weaknesses remain in the labor market. The headline unemployment rate is so low in part because it is calculated based on the number of people who are actually participating in the labor force (that is, working or looking for work), and labor-force participation fell sharply during the recession and has been very slow to recover afterward. Since 2011, less than 82 percent of working-age Americans have participated in the labor force, a level last seen more than 30 years ago, when women had not yet begun working outside the home in large numbers. Unsurprisingly, wage growth has also remained anemic since the end of the recession.

It simply isn't possible to regulate the postwar middle class back into existence.

Declining work-force participation is troubling not only because work provides income but also because it gives people meaning. The sociologist William Julius Wilson has argued that “the consequences of high neighborhood joblessness are more devastating than those of high neighborhood poverty,” and a great deal of research supports his view. As employment prospects have dimmed in recent years for the United States’ least educated workers, Robert Putnam, Murray, and other social scientists have documented troubling results: declines in social cohesion and civic participation and increases in divorce rates, absentee parenting, drug use, and crime. In 2015, the economists Anne Case and Angus Deaton published the alarming finding that although death rates in the United States have fallen steadily for most demographic groups, they have risen for middle-aged whites, and especially for those with less than a high school education (a group facing particularly sharp employment challenges). The increased mortality among this group was almost entirely due to three factors: suicide, cirrhosis and other chronic liver diseases, and acute alcohol and drug poisoning.

Of course, these social woes stem from many sources. But unemployment and underemployment no doubt contribute, and troubled communities would certainly benefit from more opportunities and incentives for work. As President Franklin Roosevelt once said, “Providing useful work is superior to any and every kind of dole.”

EARNING IT

Because work provides benefits to individuals, households, and communities that go far beyond the money earned, policy should encourage employment. Unlike a universal basic income, wage subsidies do just that. In the United States, the Earned Income Tax Credit, which is administered through annual tax returns, offers a maximum yearly benefit of \$6,242 for a family with three or more children. Whereas a universal basic income would be given unconditionally, the EITC is available only to people with wage income and therefore provides a direct incentive to work.

An experiment from the late 1960s and early 1970s offered clear evidence of the importance of such an incentive. Thousands of households in Denver and Seattle received differing combinations of a relatively generous basic income and a wage subsidy. The results were clear and consistent: in both cities, once the assistance started, both men and women worked fewer hours, and their marriages were more likely to dissolve. These declines were significantly associated with the basic income, but not with the wage subsidy, suggesting that it was the arrival of income without work that made things worse. Wage subsidies, by contrast, encourage people to work more hours (and increase their tax credit), as the economists Raj Chetty, John Friedman, and Emmanuel Saez have found of the EITC.

But for now, efforts to raise the minimum wage enjoy more popular momentum. At a time when the federal minimum wage stands at \$7.25 per hour and no state has one higher than \$10 per hour, many states and localities are facing loud calls to raise the minimum wage all the way to \$15. Some of these efforts have been successful; New York and California are slated to raise their minimum wages to \$15 in 2018 and 2022, respectively.

Raising the rewards for work is a laudable goal, but significantly higher minimum wages are not the best way to accomplish it. When labor becomes more expensive, companies tend to use less of it, all else being equal. It is true that across the large amount of research on minimum-wage hikes, the average finding is that they at most reduce total employment only slightly. But it is also true that estimates of the effects vary widely and that most of this research has examined only modest increases.

There is reason to believe that minimum-wage increases of 50 percent or more, even if phased in gradually, would worsen job prospects

for the least affluent and least skilled workers—an especially undesirable outcome at a time of low work-force participation. As Arindrajit Dube, an economist who has studied previous minimum-wage hikes, has put it, “If you’re risk-averse, this would not be the scale at which to try things.” The safest combination of policies, therefore, is a moderate minimum wage together with a substantially expanded EITC or similar wage subsidy. Just as individuals should be encouraged to seek work, employers should be encouraged to provide it, and much higher minimum wages have the opposite effect.

PEOPLE POWER

Ever-smarter machines will prove transformative, just as electrification, internal combustion, and steam power were in earlier eras. New technology will create opportunities for vastly greater productivity and wealth but will also upend the labor market.

In times of disruption, it is impossible to predict exactly how the work force will be affected. The best strategy is not to try to slow the technology but to strive for flexibility, so that people, organizations, and institutions can learn and grow their way into a healthy future. Furthermore, given the importance of work beyond the income it generates, policy should encourage work rather than assuming we live in a world without the need for it.

It’s easy to be pessimistic about whether any of the proposed policies will be enacted. Polarization in Congress is at a postwar high, the 2016 presidential candidates have largely dodged fundamental questions about the challenges facing the economy, and the forces of inertia, as ever, remain strong. Policymaking will no doubt lag behind the technology.

But there are a few hopeful signs. One is that the EITC enjoys bipartisan support, with both Obama and Paul Ryan, the Republican Speaker of the House, in favor of making it more generous and extending it to younger workers. Both sides of the aisle appear to support policies that directly encourage work, perhaps because it comports well with the American preference for industriousness that has struck observers from Alexis de Tocqueville onward. It’s worth undertaking more experimentation in this area, in order to better understand the tradeoffs and incentive effects of variations of these policies.

The other principle—that policy should promote flexibility—is also gaining traction, albeit in a more piecemeal way. Some cities and states

are working to ease job licensing restrictions and other rigidities and are growing more receptive to the companies and practices of the on-demand economy. Because regulations and policies exist at multiple independent levels—federal, state, and local—advocates of flexibility should probably not expect that fast and systematic action will bring it about. They can, however, continue to highlight its importance and conduct research to better understand why business dynamism is declining.

The rise of intelligent computers can and should be good news for the economy. It will bring great material prosperity, better health, and other benefits that can't be foreseen. But a broadly shared prosperity is not automatic or inevitable. In the new age of machines, it will take humans to achieve that. 🌐

Democracy in Decline

How Washington Can Reverse the Tide

Larry Diamond

In the decade following the Cold War, democracy flourished around the world as never before. In recent years, however, much of this progress has steadily eroded. Between 2000 and 2015, democracy broke down in 27 countries, among them Kenya, Russia, Thailand, and Turkey. Around the same time, several other global “swing states”—countries that, thanks to their large populations and economies, could have an outsize impact on the future of global democracy—also took a turn for the worse. In nearly half of them, political liberties, as measured by the U.S. nonprofit Freedom House, contracted.

Meanwhile, many existing authoritarian regimes have become even less open, transparent, and responsive to their citizens. They are silencing online dissent by censoring, regulating, and arresting those they perceive as threats. Many of them are attempting to control the Internet by passing laws, for example, that require foreign companies to store citizens’ data within the home country’s borders. Offline, states are also constraining civil society by restricting the ability of organizations to operate, communicate, and fundraise. Since 2012, governments across the globe have proposed or enacted more than 90 laws restricting freedom of association or assembly.

Adding to the problem, democracy itself seems to have lost its appeal. Many emerging democracies have failed to meet their citizens’ hopes for freedom, security, and economic growth, just as the world’s established democracies, including the United States, have grown increasingly dysfunctional. In China, meanwhile, decades of economic growth have proved that a state need not liberalize to generate prosperity.

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Not all the trends are bad. Optimists can point to Nigeria, which in May 2015 experienced the first truly democratic transfer of power—from a defeated ruling party to the opposition—in its history, or to Sri Lanka, which returned to electoral democracy in January 2015 after five years of electoral autocracy. The first Arab democracy in decades has emerged in Tunisia, and in Myanmar (also called Burma), a democratically elected government now shares significant power with the military. The authoritarian model of capitalism has also lost some of its shine, as China's growth has slowed markedly and the plunge in oil prices has weakened Russia and other petrostates.

Proponents of democracy should act energetically to capitalize on these and other opportunities. The right kind of support from the United States and its allies could unleash a new wave of freedom across the globe, particularly in Asia's swing states. Without that support, however, autocracies will continue to proliferate, leading to more instability and less freedom.

TURNING INWARD

One of the biggest challenges facing democracy today is that its biggest champion—the United States—has lost interest in promoting it. In a 2013 Pew survey, 80 percent of Americans polled agreed with the idea that their country should “not think so much in international terms” and instead “concentrate more on [its] national problems.” Just 18 percent expressed the belief that democracy promotion should be a top foreign policy priority. It should thus come as no surprise that none of the current presidential candidates has made democracy promotion a cornerstone of his or her campaign.

Washington has continued to support some nongovernmental efforts. Congress increased its appropriation for the National Endowment for Democracy, a nonprofit that funds pro-democracy groups abroad, from \$115 million in 2009 to \$170 million in 2016. For the most part, however, as public support for democracy promotion has declined, funding for it has stagnated. During this same period, U.S. government spending on democracy, human rights, and governance programs (mainly through the U.S. Agency for International Development, or USAID) fell by nearly \$400 million. Even excluding the decline in funding for Afghanistan and Iraq, funding for such programs in other countries stayed flat.

As the United States has lagged behind, few other countries have stepped in. The most ambitious intergovernmental attempt to promote democracy—the Community of Democracies, a coalition established in 2000—lacks the resources and visibility to have much impact. Regional organizations are not doing much better. The EU, for example, has largely stood by as Hungarian Prime Minister Viktor Orbán has flouted democratic norms. And the union was so desperate to secure Turkey’s help in stemming the flow of Syrian refugees that it agreed to revive membership talks with Ankara, even as Turkish President Recep Tayyip Erdoğan has accelerated his efforts to suppress dissent.

Although some European countries, such as Sweden and the United Kingdom, have continued to support significant bilateral programs to promote democracy and improve governance, the budget of the European Endowment for Democracy, established in 2013, reached just over \$11 million last year. The United Kingdom’s Westminster Foundation for Democracy currently has a public budget of just \$5 million. Canada’s International Centre for Human Rights and Democratic Development shut down in 2012. And developing democracies such as Brazil, India, and Indonesia have hesitated to contribute much, focusing instead on their own many problems.

Authoritarian leaders have capitalized on this vacuum by exporting their illiberal values and repressive technologies. Iran has been using its financial, political, and military influence to shape or destabilize governments in Iraq, Lebanon, Syria, and Yemen. Russia has used violence and intimidation and has funneled money to support separatist movements and to prop up pro-Russian, antireform political forces in Georgia and Ukraine. Moreover, Russia has built what the Internet freedom organization Access Now has termed a “commonwealth of surveillance states,” exporting sophisticated electronic surveillance technologies throughout Central Asia. China, too, has reportedly supplied Ethiopia, Iran, and several Central Asian dictatorships—Tajikistan, Turkmenistan, and Uzbekistan—with Internet and telecommunications surveillance technology to help them repress and spy on their citizens.

THE BEST FORM OF GOVERNMENT

Although democracy promotion may have fallen out of favor with the U.S. public, such efforts very much remain in the national interest. Democracies are less violent toward their citizens and more protective

of human rights. They do not go to war with one another. They are more likely to develop market economies, and those economies are more likely to be stable and prosperous. Their citizens enjoy higher life expectancies and lower levels of infant and maternal mortality than people living under other forms of government. Democracies also make good allies. As Michael McFaul, the former U.S. ambassador to Russia, has written, “Not every democracy in the world was or is a close ally of the United States, but no democracy in the world has been or is an American enemy. And all of America’s most enduring allies have been and remain democracies.”

Authoritarian regimes, by contrast, are inherently unstable, since they face a central dilemma. If an autocracy is successful—if it produces a wealthy and educated population—that population will construct a civil society that will sooner or later demand political change. But if an autocracy is unsuccessful—if it fails to generate economic growth and raise living standards—it is liable to collapse.

The United States still has the tools to promote democracy, even if it lacks the will. As Thomas Carothers, a vice president at the Carnegie Endowment for International Peace, has shown, over the past quarter century, U.S. electoral assistance has evolved from superficial, in-and-out jobs to deeper partnerships with domestic organizations. Support for civil society has spread beyond simply aiding elites in national capitals. Efforts to promote the rule of law have expanded beyond the short-term technical training of judges and lawyers to focus on broader issues of accountability and human rights.

These efforts appear to have paid off. A 2006 study of the effects of U.S. foreign assistance on democracy found that \$10 million of additional USAID spending produced a roughly fivefold increase in the amount of democratic change a country could be expected to achieve based on the Freedom House scale.

LET FREEDOM RING

But the United States can and should do more. The next president should make democracy promotion a pillar of his or her foreign policy. Washington could do so peacefully, multilaterally, and without significant new spending.

Pursuing such a policy requires, first of all, taking care to avoid legitimizing authoritarian rule. President Barack Obama did just the opposite during a July 2015 visit to Ethiopia, when he twice called its



A heavy hand: Turkish President Recep Tayyip Erdogan in France, October 2015

government “democratically elected,” even though it had held sham elections earlier that same year. When he visited Kenya on the same trip, Obama expressed the hope that its corrupt and semiauthoritarian regime would keep “continuing down the path of a strong, more inclusive, more accountable and transparent democracy.” Regimes pounce on such language, using implicit U.S. endorsements to stifle free speech and activism at home. In 1981, George H. W. Bush, then vice president, visited Manila and said to the country’s dictator, Ferdinand Marcos, “We love your adherence to democratic principle.” Within the next few years, Marcos’ abuses intensified, and his principal rival in the democratic opposition, Benigno Aquino, Jr., was assassinated.

Washington should also seize opportunities to reaffirm the country’s commitment to democracy abroad. In 2015, the United States assumed leadership of the Community of Democracies, which will hold its next biennial meeting in Washington in 2017, a few months after the next president is inaugurated. He or she should speak at the meeting to emphasize the organization’s importance and to endorse the values for which it stands.

The next president should also increase financial support to fragile democracies. States undergoing political transitions—such as Myanmar, Tunisia, and Ukraine—are particularly vulnerable to outside influence. So U.S. support can have an outsize impact in such places. Congress

has already increased assistance to Tunisia, from \$61 million in 2015 to \$142 million this year, and to Ukraine, from \$88 million in 2014 to \$659 million today. It could and should do still more for these countries, and for other emerging and fragile democracies both small (Senegal, for example) and large (such as Indonesia). But part of the bargain for increased economic aid has to be a serious commitment by the leaders of those countries to fight corruption and improve the quality of governance.

Countries bordered by democracies tend to evolve in a democratic direction, while those bordered by authoritarian regimes tend toward autocracy. Washington should thus develop a comprehensive strategy for targeting states where democratic progress could affect the entire region. Populous countries tend to be more influential, so the next president should find ways to nudge states such as Bangladesh, Indonesia, Myanmar, Nigeria, Pakistan, the Philippines, and South Africa toward more effective, accountable, and democratic governance. At the same time, he or she should not neglect smaller democracies such as Georgia, Senegal, and Tunisia. In the post-Soviet sphere, in West Africa, and in the Arab world, civic and political actors are closely watching these three high-profile experiments. In each case, success could generate significant spillover effects. The United States should also focus on places on the cusp of a breakthrough. Venezuela, for instance, has been poised for a democratic transition since late 2015, when the opposition trounced the governing party in legislative elections, undermining roughly two decades of socialist rule. And Vietnam represents an intriguing opportunity, due to its emerging civil society, membership in the Trans-Pacific Partnership, and clear desire to draw closer to the United States in order to counter the threat from China.

Any policy to promote democracy must include bolder, smarter efforts to fight corruption, which sustains most authoritarian regimes. In the past decade, Washington has made progress in identifying, tracking, and seizing ill-gotten wealth—a crucial step in the wars against terrorism and drug trafficking that can also advance democracy and human rights. But the United States must do more to identify the international assets of venal dictators and their cronies, prosecute them for money laundering, and return their vast fortunes to their neglected citizens. The next administration should direct USAID to prioritize programs that help countries build professional bureaucracies and autonomous agencies capable of auditing government accounts

and prosecuting corruption. And it should aid civil society groups and the media in their efforts to track stolen funds and hold public servants accountable.

As part of a push to discourage corruption, the next president should accelerate the use of legal strategies and tools to seize the U.S.-based assets of venal dictators. Since the United States launched the Kleptocracy Asset Recovery Initiative in 2010, lawyers and investigators from the Justice Department, the Department of Homeland Security, and the FBI have brought 25 legal cases against 20 foreign officials, seeking to recover \$1.5 billion in ill-gotten gains, including from the estate of the late Nigerian dictator Sani Abacha and from Gulnara Karimova, daughter of the Uzbek president. Washington has also been stepping up efforts to halt the flow of illicit money into U.S. banks. The next president should dramatically increase the resources and political capital for such efforts, both nationally and globally, to ensure that kleptocrats can find no safe haven.

He or she should also encourage U.S. diplomats to make support for democracy a major priority in their work on the ground. These envoys can use their diplomatic immunity to shield activists from arrest or to make it more difficult for a regime to target them, as has been the case with U.S. and European diplomatic support for Las Damas de Blanco (the Ladies in White), the opposition movement that wives of jailed dissidents and other women founded in Cuba. In extreme circumstances, they can and should shelter dissidents in their embassies and consulates, as the U.S. embassy did for the Chinese scientist and dissident Fang Lizhi after the 1989 crackdown on the Tiananmen Square protesters. Diplomats also have unparalleled access to local leaders, which gives them a unique opportunity to nudge autocrats toward reform. In a country transitioning to democracy, such as South Africa in the late 1980s and early 1990s, or Myanmar today, such engagement can help foster and sustain the resolve for democratic change. Where an authoritarian regime is powerful, confident, and sitting tight, as in China today, it may seem as though such efforts are hopeless. But most authoritarian regimes have moderate and pragmatic elements who may see the need for political opening. China is no different. The marginal moderates of today could well become the rulers of tomorrow.

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27 countries.*

Meanwhile, the next administration ought to support Internet freedom and digital rights—an especially important effort in light of what the Edward Snowden leaks revealing U.S. government surveillance of Internet and phone communications did to U.S. credibility. In this vein, the government should start by refining its economic sanctions. In 2014, Washington exempted the export of software for “personal communications over the Internet, such as instant messaging, chat and email, social networking, sharing of photos and movies, web browsing, and blogging” from its sanctions against Iran. Such exemptions, as well as the free distribution of software to circumvent Internet censorship and allow dissidents to communicate securely, should become a standard part of any U.S. sanctions effort, including that against North Korea. Authoritarian regimes need to filter information and control communications to sustain their rule, and undermining that control is one of the best ways the United States can foster democratic change.

The next president can also use trade agreements to advance democracy. Academic studies confirm that when free-trade agreements are conditional on governments taking specific measures to protect human rights, meaningful improvements follow. The White House has reported that the mere process of negotiating the Trans-Pacific Partnership induced Brunei to sign and Vietnam to ratify the UN Convention Against Torture, while also encouraging other human rights improvements in these two countries and in Malaysia. Embedding strong guarantees for human rights (including labor rights) into future trade agreements offers a dual benefit: it can nurture democratic reform in partner countries and help undermine the charge that U.S. trade pacts establish an unfair playing field for American workers and companies. Needless to say, the success of such provisions will depend on whether Washington is willing to bring legal action against member states that violate them.

YES WE CAN

Above all, any push for democracy abroad should begin at home. The sad fact is that American democracy no longer inspires admiration or emulation. The U.S. presidential election has revealed deep currents of alienation and anger among the public—currents Washington appears unable to calm. The gerrymandering of congressional districts, the flood of so-called dark money into election campaigns, and the

ever-growing power of special-interest lobbies have polarized politics to an unprecedented degree, resulting in the passing of fewer bills, a breakdown in bipartisan foreign-policy making, and regular government shutdowns.

These political failings have given ammunition to democracy's enemies. Russian President Vladimir Putin, for instance, has claimed that "there is no true democracy" in the United States, and Mahmoud Ahmadinejad, the former president of Iran, has criticized U.S. elections as "a battleground for capitalists."

The next administration could take a number of steps to counter such charges and restore people's confidence in American democracy. Working with Congress, it should reform campaign finance laws and require the rapid and full disclosure of all campaign contributions, even to so-called independent committees. It should also encourage state governments to invigorate political competition—for example, by ending gerrymandering, introducing ranked-choice voting for Congress and state offices, and removing sore-loser laws, which prevent defeated primary candidates from running as independents in the general election.

Together, these steps could improve democracy in the United States and abroad at little to no financial cost. They could help restore the United States' leadership role in the world. And they could tip the world out of its persistent democratic recession and into a new period of progress. 🌍

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The Innovative Finance Revolution

Private Capital for the Public Good

Georgia Levenson Keohane and Saadia Madsbjerg

Assessments of how governments and international organizations have dealt with global challenges often feature a familiar refrain: when it comes to funding, there was too little, too late. The costs of economic, social, and environmental problems compound over time, whether it's an Ebola outbreak that escalates to an epidemic, a flood of refugees that tests the strength of the EU, or the rise of social inequalities that reinforce poverty. And yet governments and aid groups rarely prove able to act before such costs explode: indeed, according to some estimates, they spend 40 times as much money responding to crises as they do trying to prevent them.

One reason for this is that complex international problems tend to be dealt with almost exclusively by governments and nonprofit organizations, with the private sector typically relegated to a secondary role—and with the financial sector playing a particularly limited part. Stymied by budgetary constraints and political gridlock, the traditional, primarily public-financed system often breaks down. Government funds fall short of what was promised, they arrive slowly, and the problem festers.

In recent years, however, a new model has emerged, as collaborations among the private sector, nonprofit organizations, and governments have resulted in innovative new approaches to a variety of global challenges, including public health, disaster response, and poverty reduction. Instead of merely reacting to crises and relying solely on traditional

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funding, financiers—working closely with governments and nongovernmental organizations—are merging private capital markets with public systems in ways that promote the common good and make money for investors as well. By relying on financial tools such as pooled insurance and securitized debt, these efforts—which have come to be known as “innovative finance”—can unlock new resources and lead to cost-effective interventions. At the same time, such solutions generate profits and give investors an opportunity to diversify their holdings with financial products whose performance isn’t tied to that of the overall economy or financial markets.

Technological advances and creative thinking have led to a boom in innovative finance. To realize its full potential, however, solving public problems by leveraging private capital requires more attention from policymakers, who should consider a series of steps to encourage even more progress in this area.

A SHOT IN THE ARM

A wide range of players have begun to embrace innovative finance, including treasury departments, multilateral development agencies, nonprofit financial firms, and traditional investment banks. In most cases, philanthropic foundations have stepped up with seed money. Government aid agencies have then put new concepts into practice by providing funds to create new financial vehicles.

The term “innovative finance” suggests complexity, but it’s less complicated than it sounds. Three recent examples help demonstrate what it means—and what it can do.

In the summer of 2002, the United Kingdom’s Treasury concluded that the government’s budget had not provided enough funding to honor the country’s commitment to the Millennium Development Goals, a set of ambitious global efforts to tackle poverty and its many effects. The British were hardly alone in this conundrum: in many of the 189 countries that had agreed to the MDGs, officials had realized that good intentions and bold aid pledges would not yield enough money to make good on their promises. Gordon Brown, then the British chancellor of the exchequer, believed that private-sector expertise and capital markets might be able to help, and he approached the investment bank Goldman Sachs. The firm’s bankers turned to the tool kit of so-called structured finance to transform pledges for future aid spending into immediate funding for MDG projects.

In essence, Goldman Sachs' plan was one that would be familiar to people who hold home mortgages, and who thus borrow from their future selves to pay for the housing they need today. Although at that moment, governments in the United Kingdom and elsewhere were short of cash for their MDG spending, they had pledged to devote substantial amounts to MDG projects over the course of the next 15 years. That promised future spending represented a kind of underlying asset—similar to a mortgage holder's home—which Goldman Sachs

Innovative finance leads to cost-effective international aid, generates profits, and lets investors diversify their holdings.

wagered investors would find attractive. The innovation was to conceive of a new type of financial product: a bond whose yields would be furnished by future government development aid rather than by the proceeds of a specific project, such as road tolls or water-usage fees.

The British government and its banking partners also identified what they believed to be the best way to spend the money they would raise by selling such bonds: on immunization campaigns that would help reach the MDGs' public health targets. In 2006, they founded the International Finance Facility for Immunisation (IFFIm) and developed the world's first "vaccine bonds." Fitch Ratings, Moody's Investors Service, and Standard & Poor's gave the bonds a AAA (or equivalent) rating, and IFFIm conducted its first bond issue in November 2006, raising \$1 billion. Institutional investors such as pension funds and central banks, as well as retail investors, purchased bonds that matured after five years and that offered an annual yield of five percent—31 basis points above the benchmark rate offered at that time by the five-year U.S. Treasury bond. In the years since, IFFIm has issued 30 bonds in a range of currencies and term lengths for a variety of investors, from institutions to private individuals, and has raised \$5.25 billion. IFFIm recently further expanded its investor base by issuing \$700 million worth of *sukuk*, or Islamic bonds, which adhere to Islamic lending rules by eschewing interest charges or payments.

To help ensure that this money would be spent in the most cost-effective way, IFFIm partnered with Gavi, the Vaccine Alliance, a nonprofit that is funded in part by the Bill & Melinda Gates Foundation

and that specializes in large-scale immunization programs and creative ways to fund them. IFFIm's bond issues helped Gavi increase its annual budget from \$227 million in 2006 to \$1.5 billion in 2015 and expand programs such as a polio eradication initiative that has financed the development and testing of new vaccines and the stockpiling of proven ones in places such as the Democratic Republic of the Congo and India.

A 2011 evaluation of IFFIm conducted by the health-care consulting company HLSP (now part of Mott MacDonald) credited IFFIm with saving at least 2.75 million lives and improving the quality of millions more. All the while, IFFIm has allowed the United Kingdom and other donor countries to make good on their MDG commitments and has provided investors with healthy, reliable returns. Two representative examples include a three-year, floating-rate *sukuk* that IFFIm issued in 2015, which received a AA rating, offered investors a quarterly coupon payment that was 14 basis points higher than the benchmark three-month U.S. dollar LIBOR rate, and raised \$200 million, and a five-year "kangaroo bond" (denominated in Australian dollars and subject to Australian laws and regulations) that IFFIm issued in 2010, which received a AAA rating, offered investors a 5.75 percent fixed rate (76 basis points over the benchmark Australian Government Bond rate), and raised \$400 million in Australian dollars.

MAKE IT RAIN

The semi-arid Sahel region, which stretches across northern Africa, is no stranger to droughts—nor to the famines that can follow in their wake. There have been three major droughts in the area in the last ten years, which have reduced the food security of millions of people. The traditional response to such emergencies consists of a UN appeal to donor countries for financial aid, which usually arrives too late to prevent the worst effects of a drought. But last year, something different happened.

In January 2015, soon after a drought struck the region, three countries—Mauritania, Niger, and Senegal—received an unusual set of payments totaling \$26 million. Rather than aid donations, they were payments resulting from claims the countries made on drought insurance policies they had purchased the previous year. The total dollar amount might seem modest, but the money's effects were magnified by the speed with which it arrived: the countries



Liquidity crisis: a woman in a dry riverbed in Mauritania, June 2007

received their payments even before the UN had managed to issue an appeal for aid. Mauritania used the money to make timely food deliveries to those most in need in the Aleg area, preventing many families from deserting their homes in a desperate attempt to survive. Authorities in Niger used the money to fund work programs for farmers in the Tillabéri region who could no longer afford to feed their families after their crops failed. Senegal used its funds to distribute food to the hardest-hit households and also to give subsidies to ranchers who otherwise might have lost their livestock.

These payouts were made possible by the African Risk Capacity (ARC), a specialized agency of the African Union, and its financial affiliate, the ARC Insurance Company, which is jointly owned by the union's member states. Launched in 2012 with funding from the Rockefeller Foundation and other organizations, and born out of frustration with the inefficiencies of the international emergency aid system, ARC was established to help African countries build up their resilience to natural disasters. Capitalized with development assistance from the KfW Development Bank, which is owned by the German government, and from the United Kingdom's Department for International Development, the ARC Insurance Company was established in 2014. Kenya, Mauritania, Niger, and Senegal were the first African countries to sign up for a so-called pooled risk insurance product. For

annual drought coverage of up to \$60 million, each country paid an annual premium of between \$1.4 million and \$9 million: around half the amount that any one country would have had to pay on its own for a similar level of coverage. ARC has since been backed by some of the world's largest reinsurance companies, including Swiss Re and Munich Re.

In addition to providing access to insurance, ARC encourages preparedness. Before countries can purchase a policy, they must produce detailed plans demonstrating that they will use any payments they receive in a timely and effective manner. The planning relies heavily on Africa RiskView, a software platform that was initially developed by the UN World Food Program with funding from the Rockefeller Foundation and that projects crop losses and the cost of weather-related difficulties using advanced satellite data and detailed records of past droughts and subsequent emergency-response operations.

ARC has the potential to transform the way developing countries manage the costs of natural disasters, demonstrating that it is possible to shift the burden from governments (and poor and vulnerable populations) to global financial markets, which are much better equipped to handle risk. To date, ARC has issued \$500 million in drought insurance to ten countries, and by 2020, ARC aims to provide \$1.5 billion in coverage to approximately 30 countries, helping protect some 150 million Africans against a variety of environmental risks, including extreme heat, droughts, floods, cyclones, and even pandemics.

PAYING FOR SUCCESS

Innovative finance is not just a developing-world phenomenon. In wealthier economies, new financial tools have been brought to bear on a wide range of challenges, including public health, an area in which traditional approaches often fail to meet the urgent need for prevention and early intervention. Consider the case of the Nurse-Family Partnership, a nonprofit organization in the United States that sends nurses to make home visits to low-income, first-time-mothers, working with them from pregnancy until their child is two years old. The NFP has an impressive track record of improving maternal and child health and supporting self-sufficiency. Indeed, it is one of the most rigorously tested antipoverty interventions in U.S. history; 30 independent evaluations have measured its effects. A 1997 study published by researchers at three American universities found that 15 years after participating

in the NFP's first-time-mother program, children were 79 percent less likely to have suffered state-verified abuse or neglect, and mothers spent 30 fewer months on welfare, on average. In 2013, the Pacific Institute for Research and Evaluation found that the program had a pronounced positive impact, contributing to healthy birth outcomes, child health and development, and even crime prevention, and estimated that for each family served, the government saved \$40,000 in spending on things such as criminal justice systems, special education, and Medicaid.

Yet despite this track record, the NFP, like so many effective social programs, has had trouble securing the public dollars it needs to serve more families in the 37 states in which

it operates. So the NFP has begun to explore partnerships to secure new sources of private funds in some of the states with the most need, including South Carolina, where 27 percent of the state's children live in poverty. In February 2016, the NFP, the South Carolina Department of Health and

Innovative finance has the potential to transform the way developing countries manage the costs of natural disasters.

Human Services, and the Children's Trust of South Carolina entered into a groundbreaking "pay for success" contract structured and overseen by a nonprofit financial organization called Social Finance. (As part of the initiative, the state has also received technical support from experts at the Harvard Kennedy School's Government Performance Lab.) The contract calls for private investors to provide the NFP with \$17 million—money that, along with around \$13 million in federal Medicaid reimbursements, the group will use to expand its services to 3,200 mothers in South Carolina. If the NFP's interventions succeed in demonstrably improving the lives of the participants by hitting specific targets—reducing the number of pre-term births, decreasing child hospitalizations and emergency-room use, promoting healthy spacing between births, and serving more first-time mothers in the lowest-income communities—the investors can be repaid with money set aside by South Carolina and can expect to receive a return of somewhere between five and 13 percent, assuming a performance similar to those of previous pay-for-success arrangements. If the NFP fails to meet the goals, the investors will lose their principal and the government will owe them nothing. The outcomes will be measured

against a randomized control trial, and the evaluation will be overseen by the Abdul Latif Jameel Poverty Action Lab at the Massachusetts Institute of Technology.

Such arrangements—of which the NFP’s is one of the largest, but not the first—are sometimes called “social-impact bonds.” That is a bit of misnomer: a contract such as this is less like a bond and more like an equity investment, since its returns depend on performance and investors share in both the potential upside and the risk. In the past five years, public-private coalitions have entered into more than 50 of these kinds of pay-for-success agreements in Asia, Europe, the Middle East, and North America, addressing a variety of issues, including public health, work-force development, foster care, military veteran reentry, housing, education, and criminal justice. Current estimates place the global market for such investments at around \$150 million and predict that it will grow to somewhere between \$300 million and \$500 million over the next few years.

MORE BANG FOR THE BUCK

A number of factors favor the advance of innovative finance. First among them are the exceptionally low interest rates in recent years, which have whetted capital markets’ appetite for new kinds of investment vehicles, especially those whose performance doesn’t necessarily depend on broader economic or financial trends. Innovative finance can provide value to investors even when more traditional equity and bond markets falter. Even if interest rates begin to rise, as many expect they will, innovative financial solutions have already proved their value and will likely endure.

But to grow and expand, such products must reach a wider pool of capital, moving beyond the institutional investors who currently represent the sector’s most active players. Some innovative financial products are already available to retail investors, primarily through specialized investment funds, such as the Goldman Sachs Urban Investment Group, and through donor-advised funds that manage investments for major charities. And a growing number of products, including vaccine bonds offered by IFFIm in Japan, have become even more easily available to retail investors.

To achieve larger scale, the developers of innovative financial products must continue to provide attractive yields and further mitigate the risks—real or merely perceived—posed to investors who

want to enter this still unfamiliar terrain. Financial professionals who design these products need to take better advantage of government guarantees and government insurance, such as the Development Credit Authority program run by the U.S. Agency for International Development, which provides partial debt guarantees to investors and is backed by the U.S. Treasury. Yet fostering greater participation will require more than competitive returns. Investors also need reliable data to assure them that innovative finance will help them do well while doing good. Here, technological innovation is complementing financial innovation. Consider, for example, recent advances in remote sensors, which can measure the effects of complex processes such as deforestation. The new availability of such data has made it possible to design pay-for-success contracts that depend on rigorous monitoring. Meanwhile, more accurate and comprehensive satellite imagery has also made it possible to better assess the threats posed by bad weather and natural disasters, allowing financiers to develop more sophisticated insurance-based investment products, such as the natural-disaster protection plans now spreading in Africa.

Government policy is also beginning to shift in ways that will encourage more innovative finance. For example, in October 2015, the U.S. Department of Labor repealed restrictive rules that had prevented U.S. pension funds from considering social, environmental, and good-governance factors when making investment decisions. This “ERISA reform”—a reference to the Employee Retirement Income Security Act—has the potential to catalyze investment in innovative financial products by pension funds that must follow ERISA guidelines: a huge source of potential funding. Meanwhile, in 2015, at a summit at Schloss Elmau, in Germany, the G-7 countries adopted the InsuResilience Initiative, a collaboration between the G-7 and a number of countries that are particularly vulnerable to the effects of climate change; the initiative seeks to extend insurance protection against climate disasters to 400 million people. Further progress will require leadership from donor countries and coordinated international policy efforts; one good model is the Social Impact Investment Taskforce, a G-8 initiative that was launched by British Prime Minister David Cameron in 2013 and that tracks and reports on global trends in impact investing.

Investor confidence in innovative finance would also improve if there were clearer rules and norms regarding how financial analysts should measure and assess environmental and social factors and integrate

their findings into their reporting. One important step in this direction was the establishment, in 2011, of the Sustainability Accounting Standards Board, a U.S.-based nonprofit that develops industry-specific methods for addressing such factors in their accounting procedures and financial filings.

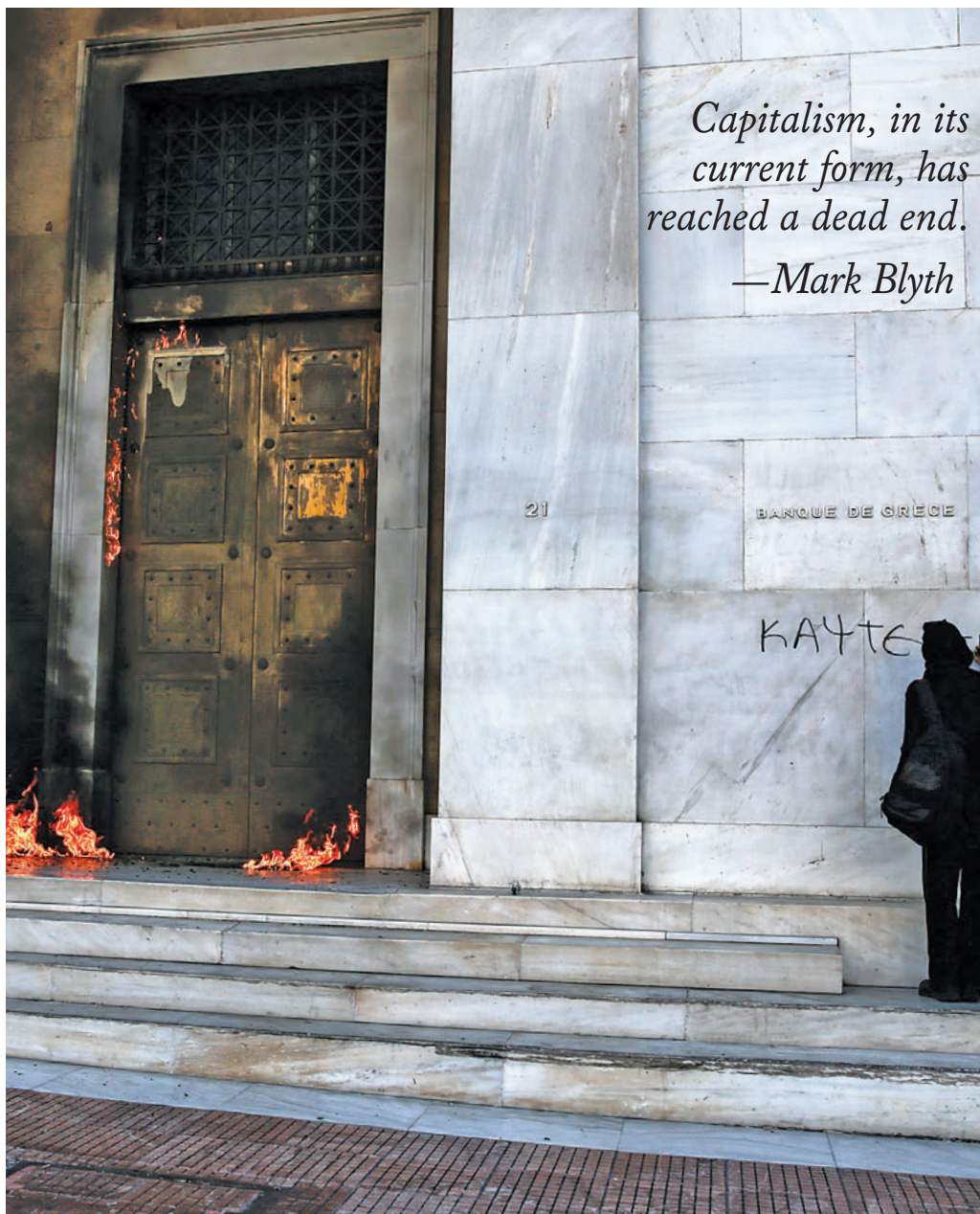
In addition, governments must improve their ability to make long-term decisions about spending on investment in social and economic development, at home and abroad. Budgeting processes in most rich countries do not allow for strategic commitments to long-term development aid: the creation of IFFIm would have been impossible had the participating countries not made exceptions to their own budgeting rules. In the United States, Congress should pass legislation—such as the Social Impact Partnership Act, which was proposed in 2015 with bipartisan sponsorship—that would direct federal funding to public-private innovative financial initiatives at the state and local levels.

CAPITALIZE ON CAPITAL

In February, international donors met in London and made an impressive pledge of roughly \$11 billion in aid and another \$40 billion in loans to deal with the enormous costs of the Syrian civil war, including the migrant flows currently overwhelming the Middle East and Europe. “Never has the international community raised so much money on a single day for a single crisis,” boasted UN Secretary-General Ban Ki-moon. But veterans of humanitarian aid and crisis response watched the conference with a sinking feeling, knowing that a great deal of promised funding fails to materialize and that even the best-intentioned aid frequently falls short of achieving its goals.

Innovative finance can help improve the international community’s response to some of the most costly aspects of such crises. Imagine, for example, how pay-for-success contracts or approaches similar to IFFIm’s could allow governments to raise funds quickly for the health-care, housing, and educational needs of refugees by securitizing future spending. Such proposals might once have seemed far-fetched; not any longer. With continued philanthropic support and sustained commitment from governments, innovative finance can put the power of private capital markets to work for the public good. 🌍

REVIEWS & RESPONSES



*Capitalism, in its
current form, has
reached a dead end.*

—Mark Blyth

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Capitalism in Crisis

What Went Wrong and What Comes Next

Mark Blyth

Capitalism: A Short History

BY JÜRGEN KOCKA. Princeton University Press, 2016, 208 pp.

Buying Time: The Delayed Crisis of Democratic Capitalism

BY WOLFGANG STREECK. Verso, 2014, 240 pp.

Postcapitalism: A Guide to Our Future

BY PAUL MASON. Farrar, Straus and Giroux, 2015, 368 pp.

Ever since the emergence of mass democracy after World War II, an inherent tension has existed between capitalism and democratic politics; capitalism allocates resources through markets, whereas democracy allocates power through votes. Economists, in particular, have been slow to accept that this tension exists. Instead, they have tended to view markets as a realm beyond the political sphere and to see politics as something that gets in the way of an otherwise self-adjusting system. Yet how democratic politics and capitalism fit together determines

today's world. Politics is not a mistake that gets in the way of markets.

The conflict between capitalism and democracy, and the compromises the two systems have struck with each other over time, has shaped our contemporary political and economic world. In the three decades that followed World War II, democracy set the rules, taming markets with the establishment of protective labor laws, restrictive financial regulations, and expanded welfare systems. But in the 1970s, a globalized, deregulated capitalism, unconstrained by national borders, began to push back. Today, capital markets and capitalists set the rules that democratic governments must follow.

But the dominance of capital has now provoked a backlash. As inequality has widened and real wages for the majority of people have stagnated—all while governments have bailed out wealthy institutions at the first sign of trouble—populations have become less willing to accept the so-called costs of adjustment as their lot. A “double movement,” in the words of the Hungarian historian Karl Polanyi, occurs in such moments as these, when those who feel most victimized by markets reclaim the powers of the state to protect them. The rise of Bernie Sanders and Donald Trump in the United States is a product of this reaction, as is the strengthening of populist parties in Europe.

Three recent books shed light on this continuing tension between the imperatives of the market and the desires of the people. Together, they offer a biography of capitalism: where it came from, what went wrong, and where it may be going in a world of stagnant living standards, widening inequality, and rising carbon emissions. And the picture they paint is a bleak one.

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THE RISE OF CAPITALISM

Capitalism: A Short History, by the German historian Jürgen Kocka, is aptly named. In just 169 pages, it tells the story of capitalism from its origins in the ancient long-distance trade routes of Mesopotamia to the 2008 financial crisis. This is no mean feat. Yet such brevity requires some simplification, which comes at a cost.

For Kocka, capitalism is “an essential concept for understanding modernity.” More important, it is a set of institutions that enshrine property rights, promote the use of markets to allocate resources, and protect capital. And it is also an ethos, he claims, a set of principles and ideas. Defining capitalism so expansively allows Kocka to see its earliest forms developing among traders in Mesopotamia, in the eastern Mediterranean, and along Asia’s Silk Road, until, by the eleventh century, the beginnings of a merchant capitalist bourgeoisie had emerged on the Arabian Peninsula and in China.

Capitalism developed later in Europe, boosted by long-distance trade with Asia and the Arab world, between the twelfth and fifteenth centuries. Merchants formed cooperative institutions that led to greater risk sharing, which encouraged the accumulation of capital. This development, Kocka writes, led to “the formation of enterprises with legal personalities of their own,” rudimentary capital markets, and, finally, banks whose fortunes became intimately connected with the rise of modern states through the management of their debts.

This alliance between merchant capitalism and the emergent state helped usher in the age of colonialism. Merchants, entrepreneurs, and conquistadors, with increasingly powerful states backing them, propelled European expansion.

Critical to this expansion was the triangular trade, in which European merchants brought finished goods to Africa, traded them for slaves, and then exchanged those slaves in the New World for sugar and cotton that went back to Europe. This process helped embed capitalism deeper in Europe than in the Middle East and China: the scale of investment that such ventures required led to the rise of what would become known as “joint-stock companies” and the beginnings of what economic historians call “finance capitalism”—stock exchanges opened in Antwerp in 1531 and Amsterdam in 1611.

Much of the profits that early European capitalists enjoyed came from these profoundly illiberal activities. As Kocka points out, “capitalism . . . contains little in the way of resistance against inhumane practices.” Yet in the long run, capitalism laid the groundwork for democracy, because the wealth it generated, and the possibilities that came with its new institutions, disrupted the guilds, helped cities expand, and allowed nineteenth-century industrialization to evolve into twentieth-century managerial capitalism.

BLAME THE BANKERS

In Kocka’s narrative, each stage of capitalism begets the next, in an almost natural progression. Capitalism simply marches onward, for the most part benevolently—at least once the reformers abolished slavery and colonialism. But beginning around 1980, he writes, something started to go wrong. Firms started to derive a larger share of their profits from the financial sector than they did from real investments, a process economists call “financialization.” This process, according to Kocka, “imparted a new quality to the system.”

Modern finance, in contrast to the earlier, “productive” forms of finance that Kocka admires, seems to mainly consist of unproductive “locust” hedge funds that “cannibalize” good firms, contributing nothing to production in the wider economy. Meanwhile, Kocka insists, since the 1980s, governments have failed to exercise self-restraint, and publics have lived beyond their means. Massive growth in public and private debt in the developed world has been the result, which represents “a lasting source of destabilization for capitalism.”

But this trenchant critique of modern finance sits oddly alongside the rest of the book. For Kocka, the system was doing just fine until the rot of modern finance set in. He insists that financialization represents a break in the evolution of capitalism. But he fails to explain where it came from, if it didn’t emerge directly from those earlier forms of capitalism.

After all, the modern finance that Kocka condemns is not so different from the earlier, “productive” finance that he lauds. The financiers that got Germany into trouble in 2007 through their exposure to U.S. subprime mortgages were not “locust” hedge funds but traditional German development banks. And one of the world’s largest derivatives traders at the time of the crisis was Deutsche Bank—hardly a new institution on the financial scene. In short, the idea that financialization may be not a perversion of capitalism but the next stage in its evolution seems to be a little too uncomfortable for Kocka to fully consider.

IN THE RED

The German sociologist Wolfgang Streeck also sees modern capitalism as flawed. Yet its current plight is not an

aberration, he argues in *Buying Time*, but a direct consequence of the unraveling of the postwar marriage of capitalism and democracy.

Streeck’s account focuses on Michal Kalecki, a Polish economist who came to prominence in the interwar period. Kalecki published a remarkable article in 1943 that predicted the economic turmoil of the 1970s. Kalecki argued that if full employment ever became the norm, workers would be able to move freely from job to job. Not only would this undermine traditional authority relationships within firms; it would also push wages up regardless of productivity levels, since workers would have more leverage to demand higher wages.

In response, firms would have to raise prices, creating a spiral of inflation that would eat into profits and lower real wages, which would, in turn, promote greater labor unrest. Kalecki argued that to restore profits, capitalists would rebel against the system that promoted full employment. In its place, they would seek to create a regime in which market discipline, with a focus on price stability rather than full employment, would be the primary goal of policy. Welfare protections would be rolled back, and the discipline that unemployment provides would be restored.

Kalecki’s predictions proved astonishingly accurate. By the 1970s, as Kalecki had foreseen, inflation had risen dramatically, profits had fallen, and capital began its rebellion. Organizations as diverse as the Swedish Employers’ Confederation and the Business Roundtable in the United States pressured governments to reduce taxes, especially on high earners. But cutting taxes in the recessionary early

1980s meant that revenues fell, deficits widened, and real interest rates rose as those deficits became harder to finance. At the same time, conservative governments, especially in the United Kingdom and the United States, set out to weaken labor and shrink the role of the state as they dismantled the regulations that had reined in the excesses of finance since the 1940s.

The financial industry could now grow unchecked, and as it expanded, investors sought safe assets that were highly liquid and provided good returns: the debt of developed countries. This allowed governments to plug their deficits and spend more, all without raising taxes. But the shift to financing the state through debt came at a cost. Since World War II, taxes on labor and capital had provided the foundation of postwar state spending. Now, as governments began to rely more and more on debt, the tax-based states of the postwar era became the debt-based states of the contemporary neoliberal era.

This transformation has had profound political consequences. The increase in government debt has allowed transnational capitalists to override the preferences of domestic citizens everywhere: bond-market investors can now exercise an effective veto on policies they don't like by demanding higher interest rates when they replace old debt with new debt. In the most extreme cases, investors can use courts to override the ability of states to default on their debts, as happened recently in Argentina, or they can shut down an entire country's payment system if that country votes against the interests of creditors, as happened in Greece in 2015. The financial industry has become,

Streeck writes, "the second constituency of the modern state," one more powerful than the people.

This shift from taxes to debt initially bought time for capitalism: it restored profits, destroyed labor's ability to demand wage increases, tamed inflation to the point of deflation (which increases the real value of debt), and even seemed to provide prosperity for all after the crisis of the 1970s. Mortgages and credit cards allowed private citizens to rack up deficits of their own—a process the sociologist Colin Crouch has described as "privatized Keynesianism." But it was all an illusion. Credit sustained the appearance of prosperity for the lower classes. In reality, the rich captured most of the newly created wealth. In the United States, for example, the top one percent more than doubled their share of the national income over the last three decades, as wages for the bottom 60 percent stood still.

In 2008, the financial crisis shattered this illusion. Governments bailed out the banks and transferred the costs of doing so to public budgets. Public debt exploded as governments bailed out the rich, and austerity measures, intended to reduce this new debt, have only compounded the losses of the majority of citizens. Capital continues to dominate democracy, especially in the EU: in Greece and Italy in 2011, technocrats replaced democratically elected governments, and in 2015, the so-called troika—the European Central Bank, the European Commission, and the International Monetary Fund—bulldozed Greek democracy.

So where Kocka blames profligate governments and debt-laden citizens for the current crisis, Streeck instead sees them as the victims. It's not lavish

public spending, he shows, but rather falling tax revenues and financial bailouts that have created so much government debt and empowered capital. If states are spending extravagantly on voters, as Kocka and those who fetishize austerity maintain, there is precious little to show for it. “Had the rise in public debt been due to the rising power of mass democracy,” Streeck writes, “it would be impossible to explain how prosperity . . . could have been so radically redistributed from the bottom to the top of society.”

Streeck foresees a prolonged period of low growth and political turmoil ahead, in which states commanded by creditors, allied with transnational investors, struggle to get resisting debtor states into line: think of Germany and Greece. “The clock is ticking for democracy,” Streeck writes, but “it must remain an open question . . . whether the clock is also ticking for capitalism.”

“NEOLIBERALISM IS BROKEN”

For the British journalist Paul Mason, that question is closed: capitalism’s current condition is terminal. In *Postcapitalism*, Mason writes that capitalism is “a complex, adaptive system which has reached the limits of its capacity to adapt.” The roots of capitalism’s demise, Mason argues, lie in the 1980s (also when Kocka saw problems arise), when capitalism was taken over by neoliberalism: an ideology and a set of policies that recognize no limits to the commodification of the world. Unfortunately for capitalism, “neoliberalism is broken.” To explain why, Mason turns to the work of Nikolai Kondratieff, a brilliant Soviet economist whom Stalin had murdered in 1938.

According to Kondratieff, capitalism goes up and down in 50-year cycles. At

the bottom of a cycle, old technologies and business models cease to function. In response, entrepreneurs, both public and private, roll out new technologies to open up untapped markets, and an upswing begins. This leads to a loosening of credit, which accelerates the upswing. These cycles bring to mind the concept of “creative destruction” popularized in the 1940s by the economist Joseph Schumpeter. But Mason downplays the importance of the entrepreneur, whom Schumpeter cast in a central role, and focuses instead on the effect of class-based politics on productivity.

Mason’s first cycle runs from 1790 to 1848. The upswing began when British entrepreneurs first harnessed steam power to run their factories, and it ended with the depression of the 1820s. The subsequent downswing produced the revolutions of 1848, when the emergent bourgeois classes of Europe burst onto the historical stage. Mason’s second cycle runs from 1848 to the mid-1890s. The spread of railways, the telegraph, and shipping drove growth until the depression of the 1870s. In the decades that followed, strong labor movements gained momentum all over the world, and capital, in response, became more concentrated. Electricity and mass production then powered a third upswing that crashed in the Great Depression and the massive capital destruction of World War II. After the war, a fourth cycle began with innovations in electronics and synthetics, improvements in the organization of production, and labor’s relative victory over capital in the institutions of the welfare state. That cycle’s upswing peaked in the mid-1970s, but this time, there was no major depression. The fourth cycle stalled.

THE END OF CAPITALISM

Mason's argument about why a major depression has not arrived during the past 40 years, the Great Recession notwithstanding, is partly conventional and partly surprising. The conventional explanation has four components. First, after U.S. President Richard Nixon took the dollar off the gold standard in 1971, the United States moved to a paper standard, which eliminated the constraints on deficit financing that the gold standard entailed. Second, the financialization of the developed economies masked the reality of stagnant incomes by substituting credit for wage increases. Third, the emergence of global imbalances in finance and trade allowed the United States to keep consuming as Asian countries stepped in as producers. Finally, advances in information technology empowered capital and weakened labor, and helped spread neoliberal practices across the globe.

That is a fairly familiar analysis. The unconventional part of Mason's answer harks back to Marx and Kalecki and stresses how neoliberalism managed to prevent profits from falling more effectively than any previous economic system. Mason borrows from Marx and Kalecki the idea that average profits in any market will fall due to both competition and the flood of capital into a new market, which reduce returns on investment. As a result, capitalists will always try to replace human labor with machines to protect their share of profits. During a downswing, as profits shrink, capitalists will do everything they can to boost their share of profits at the expense of labor: they will force employees to work intensively and will accelerate their attempts to replace workers with machines.

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In the past, such attempts to restore profits simply by crushing labor failed. In each of the first three waves, one way or another, workers managed to resist. The best examples of such resistance were the postwar constraints on capitalism: strong unions, rigorous regulations, and generous welfare systems. When workers defy capitalists' attempts to squeeze profits from them by building such institutions, firms have to adapt. Rather than fight labor over the fixed distribution of income, they are forced to invest in improving workers' productivity, to the benefit of both parties: this was the post-World War II growth story.

But under neoliberalism, capitalists have managed to squeeze labor in an entirely new way. Globalization obliterated the power of workers to resist, because if they did, capital—and jobs—could easily flow elsewhere. This explains why the number of labor strikes has declined so steeply all over the world. As Mason writes, “The fourth long cycle was prolonged, distorted and ultimately broken by factors that have not occurred before in the history of capitalism: the defeat . . . of organized labour, the rise of information technology and the discovery that once an unchallenged superpower exists, it can create money out of nothing for a long time.”

Still, Mason believes that these factors have only delayed capitalism's inevitable collapse. Where Marx thought that organized labor would rise up and overthrow the system, Mason bets that information technology will destroy it from within. Digital goods, such as music files and software, create a real problem for markets: they destroy the role of price in balancing supply and demand. People can copy digital goods

freely forever: they have zero marginal cost and are nonrival in consumption. When one person downloads a music file or a piece of code from the Internet, for example, she makes it no harder for anyone else to do the same. So the only way that firms can maintain their profits is by enforcing monopoly property rights: consider Apple and Samsung suing each other for the right to profit from patents or the need for major pharmaceutical companies to keep drugs prohibitively expensive.

Mason is optimistic about what will replace the profit motive. He points to decentralized networks such as Wikipedia, the “biggest information product in the world . . . made by 27,000 volunteers, for free,” and the rise of the so-called sharing economy: nonmarket peer production systems, where work has value but cannot be priced in a traditional manner. The result is a “contradiction in modern capitalism . . . between the possibility of free, abundant socially produced goods, and a system of monopolies, banks and governments struggling to maintain control over power and information.” In such a world, the central battle will be between those who want to preserve property rights and those who wish to destroy them in the name of democracy. The stakes, Mason argues, could not be higher. Without the revolution he calls for, the world will be vulnerable to a much greater threat: catastrophic climate change.

WHAT COMES NEXT?

Mason's chapter “The Rational Case for Panic” confronts what most economists and politicians tend to shy away from: the idea that capitalism in its current form is going to kill everyone. Of course,

people have predicted an environmental apocalypse before. A group of experts called the Club of Rome famously published *The Limits to Growth* in the 1970s, forecasting economic and environmental crises—and those predictions have failed to come to pass. But this time may be different.

The science behind climate change is better this time around, and it's conclusive. The world is in trouble. As Mason notes, in 2012, the International Energy Agency predicted that even if world leaders implemented all the announced emissions-reduction plans, carbon dioxide emissions would rise by another 20 percent by 2035. The world cannot burn 60 to 80 percent of remaining known carbon fuel stocks without causing catastrophic warming. But under capitalism, this is exactly what the world will do. Carbon taxes will do little to change this reality.

Add to this mix an aging developed world with huge pension liabilities and a climate-shocked developing world of young people who have nowhere to go, and it's little wonder that the Organization for Economic Cooperation and Development has forecast stagnant growth for the global economy for the next 50 years and an almost 40 percent rise in inequality in the world's rich countries. But despite this stark warning, Mason emphasizes an aspect of capitalism that both Kocka and Streeck underplay: its adaptive potential.

It is highly likely, for instance, that statistics such as GDP underestimate the impact of new information-based technologies. Hal Varian, Google's chief economist, might be exaggerating when he claims that the free search engine is worth \$150 billion to users in the United States every year, but there is no doubt

that Google has transformed the economics of finding information. Google saves everyone time and money—but that doesn't show up in GDP. Although capitalism may be reaching its adaptive limits, it has been more robust than most doomsayers realize.

Nonetheless, Mason thinks that climate change may be the one bullet that capitalism cannot dodge. Neoliberals often naively assert that capitalism will generate a miracle technology at just the right moment to stave off catastrophe. But Mason argues that previous Hail Mary passes, such as geoengineering and carbon capture, have failed to pay off. What gives him hope is that large-scale technological innovations may not be as important as micro-level changes in the structure of property rights themselves.

Whether or not such a restructuring will be enough to save the world remains unclear. But Mason is right to hold out hope. Capitalism, in its current form, has reached a dead end. If ever there were a time for pessimism of the intellect and optimism of the will, it is now. 🌍

The Many Africas

Beyond Continental Caricatures

Ian H. Solomon

Africa: Why Economists Get It Wrong
BY MORTEN JERVEN. Zed Books,
2015, 176 pp.

The Lion Awakes: Adventures in Africa's Economic Miracle
BY ASHISH THAKKAR. St. Martin's
Press, 2015, 240 pp.

The Next Africa: An Emerging Continent Becomes a Global Powerhouse
BY JAKE BRIGHT AND AUBREY
HRUBY. Thomas Dunne Books, 2015,
304 pp.

In his memoir, *The Lion Awakes*, Ashish Thakkar describes how, as a young entrepreneur selling computer parts across Africa in the 1990s, he noticed that flights within the continent seemed to take longer than the distances on a map would suggest. “Were the planes slower?” he wondered. In fact, he learned, the commonly used Mercator projection vastly understates the size of Africa, and its 54 countries, relative to other continents. You wouldn’t know it from most maps, but the continent is

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large enough to fit China, India, Mexico, the United States, and western Europe within its borders—with room to spare.

The distortion of Africa goes beyond cartography; Western journalists and academics have a history of misinterpreting and misrepresenting the region. Failing to account for the size, diversity, and dynamism of the continent—and relying on incomplete and inaccurate data—they have fashioned easy-to-comprehend yet warped and incomplete stories. In past decades, the main story line tended to be one of failure, focused on conflict, disease, corruption, victimhood, and poverty. A headline on the cover of *The Economist* in 2000 captured the gloom: “The hopeless continent.” By 2011, however, the magazine touted an “Africa rising.” But such simplistic optimism does not capture the full story, either. With more than one billion people, over 2,000 languages, and some of the fastest rates of national GDP growth in this century, the real Africa has always been more complicated.

Challenging as it is to properly capture the complexities and contradictions of a region as large, diverse, and dynamic as Africa, three recent books seek to replace the caricatures of Africa’s economic performance with more accurate pictures. Morten Jerven picks apart the flawed analyses of mainstream economists, Thakkar recounts his two decades of personal experience as an entrepreneur, and Jake Bright and Aubrey Hruby tally the risks and benefits of doing business on the continent. Taken together, these books provide a valuable corrective to the fraying narrative of failure. The Africa that emerges from their pages is one of

remarkable energy, creativity, and opportunity, in spite of the grave challenges.

Ultimately, however, their accounts still add up to an incomplete story. In emphasizing economic and business perspectives, the authors cannot tell readers how much people's lives are actually improving, whether individuals are becoming more or less capable of achieving their aspirations, whether communities are becoming more or less resilient to crisis, and whether the distribution of benefits in Africa is becoming more or less equal.

THE DEVIL IS IN THE DATA

According to Jerven, the dominant narrative of African economic failure persists because economists ask the wrong question: they seek to explain why Africa has failed rather than show how Africa has actually performed. In fact, over the last century, many African economies have experienced episodes of both growth and decline. Immediately after independence in the 1950s and 1960s, African economies grew faster on average than the rest of the world. They lagged behind from the mid-1970s into the 1990s, largely due to external shocks and bad policies, before growth returned in the late 1990s. Economists missed this variation, Jerven argues, in part because they were so intent on explaining failure.

They were also basing their analyses on incomplete data sets and incorrect assumptions. Nearly all economic data capture only the value of goods that flow through official channels, missing the informal sector, even though it is crucial to livelihoods across the developing world. Worse, when data are

missing for a country, economists simply extrapolate from neighboring countries, ignoring important differences in resource wealth, human capital, and trade. Many data sets go back only to 1960, so there is no historical context to explain the economic activity that followed. Other data, such as estimates of corruption, are based on opinion surveys rather than direct observation.

To illustrate the resulting distortion, Jerven compares the rankings of 45 sub-Saharan countries by per capita GDP in three commonly used data sets. In one of these, Guinea ranks as the seventh-poorest country, but in another, it just misses inclusion among the ten richest countries. Mozambique, depending on the source, is among either the eight poorest or the 12 richest African countries. Given the uncertainty in the data, it's hard to see why anyone should rely on policy recommendations based on such flawed sources. Garbage in, garbage out.

Jerven also charges that economists mistake correlation for causation, leading them to identify faulty silver-bullet explanations for Africa's economic performance. He rejects arguments that blame slow growth on the absence of robust institutions, a lack of social capital, or particular features of a country's history, ethnicity, climate, or geography. Weak institutions may correlate with low GDP, he argues, but studies have not reliably demonstrated which way the causality runs. He challenges the data and conclusions in Daron Acemoglu and James Robinson's *Why Nations Fail*, which pinned the blame for poverty on extractive government institutions. To claim that Africa is poor because of

weak institutions may get the relationship backward; poverty may be a cause of weak institutions.

Ultimately, Jerven concludes that although the narrative of chronic failure is a distortion, so is the “Africa rising” narrative. Again, the problem is exacerbated by the scarcity of reliable data. He points out that many countries have not updated the baseline data from which they calculate GDP. In 2014, when Nigeria updated the base year it uses to estimate the size of various sectors, its official GDP nearly doubled overnight, surpassing that of South Africa. Was the country suddenly twice as rich? Not yet. As other African countries update their own economic benchmarks, their GDP figures will also rise, perhaps due more to better measurement than to increases in economic activity—thus making it harder to determine the real rate of growth.

Finally, rising GDP figures reveal nothing about the informal sector and very little about a country’s level of poverty or vulnerability to future shocks. Jerven thus worries that such upticks in GDP convey misleading information about the conditions of average citizens’ lives. To get a more accurate picture, he calls on economists to capture country-level nuances by studying actual economies rather than fishing from afar for correlations in abstract numbers. This is valuable advice, but even a careful study of actual economies will face many of the same shortcomings that hinder broader analyses, unless the quality and availability of data improve substantially. Moreover, observers should still pay attention to correlations among growth and governance and

history, even when perfect causality may not be established.

THE START-UP CONTINENT

For greater nuance and a larger dose of optimism, look to *The Lion Awakes*, a compelling homage to Thakkar’s family and an argument for correcting the reputation of the continent Thakkar has come to know as an entrepreneur. Contrary to its image in Western media, Thakkar argues, Africa is not a “hopeless charity case” but a continent open for business. It is a good place to launch and grow a profitable company, enjoy a high quality of life, and even get rich. Thakkar’s Mara Group, which invests in companies across the region, is presented as proof of this claim, and he offers his personal story as a striking example of the triumph of commerce and confidence over trauma.

Thakkar comes from a family of Indian traders in Uganda. His parents lost everything during the brutal reign of Idi Amin; after Amin expelled Asians from the country in 1972, they fled to the United Kingdom, where Thakkar was born. Years later, eager to return to Africa, his family found itself in Rwanda during the 1994 genocide. Once they returned to Uganda, the 15-year-old Thakkar began selling computer parts he sourced from Dubai.

Thakkar recalls his early travels in Africa in the mid-1990s, when “running water was a luxury,” “constant electricity blackouts” were the norm, and “phones didn’t work.” Around the turn of the millennium, however, things started to improve. Thakkar observed that in places as diverse as Kampala, Nairobi, Dar es Salaam, Lusaka, and Lagos, “customs officials in those once chaotic



In the club: at Lagos Fashion and Design Week, Nigeria, October 2013

airports were starting to smile a bit more and play by the rules. . . . The potholes were getting fixed. Garbage was being collected.” Africa, particularly within its cities, was shedding its past and becoming a confident, viable place for modern business. Thakkar’s own interests expanded from computer sales to include banking, real estate, information technology, call centers, glass factories, packaging, philanthropy, and more.

The key drivers of progress he identifies include improved leadership (exemplified in his view by President Paul Kagame of Rwanda), an innovative telecommunications industry, an energetic youth population unleashing its pent-up demand, and the return of a highly educated diaspora, especially after the 2008 global financial crisis reoriented African expatriates’

perspective on the geography of opportunity. Most important, he says, was the arrival of cell phones; according to a 2015 report by the telecommunications company Ericsson, the number of mobile subscriptions in Africa has reached 690 million.

Thakkar also highlights the development of technology hubs, such as Kenya’s “Silicon Savannah,” and the explosion of Nollywood, Nigeria’s \$3.3 billion movie industry, and he champions Africa’s many vibrant new start-ups. For him, the answer to Africa’s economic challenges is business, not foreign aid. “Western policies of institutionalized aid have done terrible harm to Africa for decades,” he writes, whereas China has flourished economically without such aid.

In reality, however, China has received billions of dollars in Western

aid. And although aid to Africa has not been as beneficial as its strongest proponents claim, it has not been as damaging as Thakkar suggests, either. Aid should be judged at the level of particular projects in individual countries over time; it is no more helpful to caricature foreign aid than it has been to caricature its recipients.

OPEN FOR BUSINESS

Bright and Hruby, both of whom have experience with Africa in the private sector, present a similarly upbeat, although more analytic and cautious, picture. They set out to achieve a balance between “overly simplistic ‘Africa rising’ narratives” and what they criticize as “a new strain of Afro-pessimism.” While recognizing the limitations on the quantity and quality of available data, they call for a “multi-dimensional . . . more refined and data-driven” approach.

Over the past decade, Western businesses have started to take Africa more seriously. One factor behind this enthusiasm, Bright and Hruby note, has been better governance, including more multiparty elections, improvements in transparency, and tighter fiscal management. Bright and Hruby attribute greater importance than Jerven does to the role of institutions, yet demography may matter most of all: Africa boasts the world’s fastest-growing population, largest youth population, most rapidly urbanizing population, and fastest-growing consumer class. The result has been an explosion of demand for a range of consumer basics, from air travel to supermarket goods.

As does Thakkar, Bright and Hruby tell the story of innovation. M-Pesa, a mobile-phone-based payment system in

Kenya, now handles transactions equivalent to one-third of the country’s entire GDP, providing millions of Kenyans with an alternative to bank accounts and credit cards. They also document a thriving culture of entrepreneurship that has emerged across the continent, including such start-ups as BRCK (a rugged WiFi router developed in Kenya and designed for rural areas) and Jumia (a Nigerian e-commerce site that lets buyers pay cash on delivery). They paint a picture of fast-paced technological growth and innovation that, in some sectors, have surpassed and influenced the West.

Despite their enthusiasm, Bright and Hruby catalog a number of challenges to continued growth. In several areas, Africa still accounts for less than its expected share of global activity. They call this “the problem of less than 3 percent”: even though it is home to almost 15 percent of the world’s population, Africa accounts for less than three percent of Google hits, less than three percent of global trade, less than three percent of mobile broadband subscriptions, and less than three percent of global private equity investment.

Africa also suffers from serious gaps in infrastructure. Only 32 percent of sub-Saharan Africans have regular access to electricity, and only one in four has a bank account. Africa’s road network is sparse and potholed, with Nigeria, the continent’s economic powerhouse, having a rate of road penetration that is just 15 percent of India’s. Just as Thakkar noticed decades ago, in many parts of the continent today, blackouts are still frequent, running water remains a luxury, and ATMs are largely absent.

Beyond these serious challenges, there are three “deal breakers” for Bright and Hruby that could set the region back. Africa’s large and growing unemployed youth population presents one of the greatest risks to political and social stability. The continued failure of public institutions to deliver the benefits of growth and higher incomes to all groups, and not just a small elite, also threatens progress. And a serious and unexpected global economic shock—and not merely a slowdown in China’s growth rate—could prove devastating. Notwithstanding these risks, the trends are positive. Bright and Hruby, like Jerven and Thakkar, conclude that Africa’s progress and potential are outpacing its challenges.

THE REAL AFRICA

My own experience, based on work in more than a dozen African countries over the past decade, leads me to a similar conclusion. There is tremendous promise in the dynamism of young African students and entrepreneurs; in Africa’s vibrant, growing cities; and in countries on the continent that have dramatically improved their leadership and institutions. The region’s abundant world-class innovation and talent are increasingly being harnessed to improve lives and generate wealth. This is an essential story to tell, and its telling is long overdue.

But this is not the full story, which is always much more complicated than either success or failure. First, any aggregate portrait of a continent obscures its heterogeneity. Every country exhibits its own social, economic, geographic, and political characteristics, and the experience of the average Ghanaian,

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for example, bears little resemblance to that of the average Sudanese—just as the experience of one of Africa’s billionaires would be unrecognizable to one of its malnourished rural poor. Although convenient for development organizations, a single concept of African growth may be less helpful in understanding what Thakkar calls “a vast polyglot place” and Bright and Hruby describe as “the most diverse continent on the planet.” This diversity demands to be disaggregated at the country and, most important, at the city level. For now, the data are too limited and unreliable, but that is changing as new businesses develop new tools and methods to close this data deficit.

Recognizing these differences will make it easier to tackle what are genuinely continental challenges, such as gaps in energy and infrastructure, sectarian strife, the risk of pandemic disease, and the need for collective action on climate change. These are all problems of cooperation that can be addressed only with an appreciation of both the shared interests and the differences.

Second, in today’s interconnected economy, no region’s destiny is entirely within its own control. High commodity prices and strong Chinese investment, for example, have played a large role in Africa’s recent growth. As both have declined, so have expectations for the continent’s overall prospects. Growth has also been fueled by a successful diaspora bringing its skills back to the continent or sending back remittances. Similarly, developments within Africa affect economies far away: African innovations in mobile banking have been replicated in Asia, African designs can

be found in American fashion houses, and African immigrants are altering labor markets in Europe.

Finally, it is time to rethink what it is that’s worth measuring in the first place. It is unmistakably clear that the full measure of progress is not captured by increases in GDP or by any statistical yardstick used by Western economists. At best, such metrics may be imperfect proxies for improvements in the human condition; at worst, they distract from qualities and experiences—peace, health, fulfillment, and so on—that also matter and might be considered more indicative of genuine progress. A more useful analysis would consider alternative metrics derived from real experiences in Africa. It would also be attentive to the perspectives of diverse stakeholders—from entrepreneurs to laborers, farmers to urban dwellers, refugees to landowners, investors to the unemployed, ethnic groups to diaspora communities, the young to the old. With that approach, a truer picture would at last emerge—not of a single Africa but of a continent whose challenges and opportunities are as diverse as the people who call it home. 🌍

Having It All

A History of Global Consumption

Victoria de Grazia

Empire of Things: How We Became a World of Consumers, From the Fifteenth Century to the Twenty-First

BY FRANK TRENTMANN. Harper, 2016, 880 pp.

The historian Frank Trentmann has written the first total history of consumption. *Empire of Things* is an original, ambitious account that begins in the fifteenth century, spans the globe, and examines a wide range of regimes, from liberal democracies to fascist dictatorships. The book could hardly be more relevant: since the Great Recession began in 2007, the world has been mired in a global economic crisis with the consumer at its core. As inequality soared in the years leading up to the crash, middle-class consumers, in the absence of rising incomes, relied on credit to sustain their standards of living. Sensing an opportunity, banks and other financial firms began selling mortgages to people who could not afford them. When the debt bubble burst, millions lost their homes, pensions, and hopes for a more prosperous future. European welfare states introduced harsh austerity measures, Asian domestic

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demand slowed, and the global economy faltered for years.

This sequence of events revealed the inadequacy of the two prevailing narratives about consumption. For classical liberals, the accumulation of material wealth reflects freedom of choice, “the bedrock of democracy and prosperity,” Trentmann writes. According to this narrative, the United States’ victory in the Cold War represented a triumph of economic liberty and individual choice; so successful was the spread of consumer capitalism that it inspired rising middle classes across the globe to stand up to authoritarian regimes. Social democrats and progressives tell a different story. For them, capitalism has fed false desires, turning “active, virtuous citizens into passive, bored consumers.” In this view, Trentmann writes, “private, self-centered hedonism has killed the public spirit.”

Trentmann rejects this dichotomy, arguing that “consuming is too diverse and its history too rich to fit either extreme model: complacent mass consumption or individual freedom.” Instead, he wants to “take a step back” and offer readers not judgment but a historical exploration of the birth and evolution of consumption. Such an approach offers helpful background for evaluating contemporary phenomena: the globalization of manufacturing, the rise and spread of technology, and the hollowing out of the global middle class.

Empire of Things is divided into two sections. The first is broadly chronological, tracing consumer culture from the fifteenth century to the present day and examining various factors that have transformed it. The second places current trends in historical context—investigating, for example, how consumption has

transformed religion, ethics, and generational identities. Trentmann manages to convey both the everyday impact that consumption has on people's lives and the sweeping changes it has undergone over several centuries. He argues that consumption should not be mistaken for consumerism, where "consumerism" is an ideological term often used to characterize the accumulation of material goods as wasteful or immoral. On the contrary, consumption is a normal part of human behavior, and consumer cultures have developed across the globe.

Trentmann wants his readers to understand the full history of consumption: not only what people were consuming but also how states and social policies interacted with consumers and shaped their choices. His approach allows readers to explore bigger questions about how consumer culture has shaped public attitudes toward life and death, freedom, equality, and the well-being of future generations.

POPULAR MISCONCEPTIONS

Three main takeaways emerge from Trentmann's detailed narrative. First, contrary to the popular view, modern consumer culture did not originate in the United States. "Many commentators speak of 'consumer society' in the singular," Trentmann writes, "a tendency that harks back to the early twentieth century, when the concept was associated with the United States and the American way of life, with its then unrivalled level of material comfort and consumer spending."

In fact, what Trentmann calls "material life" emerged as far back as the fifteenth century, first in Renaissance-era Italy and late-Ming-era China and later in the Dutch Republic and England.

Global trade, he argues, begot consumer society. Although international commerce had flourished ever since the advent of the Silk Road in 200 BC, the 1400s brought the opening of the Americas and an uptick in trade, which paved the way for the first consumer societies. In Italy, China, the Netherlands, and England, "people acquired more things than they had had before," Trentmann writes. "The spread of markets and the division of labor that came with it enabled growing numbers to buy items they had not made themselves."

The United States was instrumental in promoting consumption in the twentieth century, especially during the Cold War, when the figure of the consumer-citizen came to occupy the center of American culture—in stark contrast to the goods-poor comrade-worker of the Soviet Union. But as Trentmann shows, the United States was never the only successful consumer society. Some countries, such as Finland, Germany, and Japan, have encouraged saving, rather than credit, to become "high-consumption societies," whereas others, such as Denmark, France, and Sweden, have allowed state expenditures in the form of pensions, health care, public education, and infrastructure to boost consumer spending.

Second, Trentmann argues that material culture is not unique to liberal democracies. This position once again undermines the accepted wisdom, which holds that the consumer is a fundamentally Western figure. Observers often portray the emergence of conspicuous consumption among China's new wealthy and middle classes as a novelty, somehow foreign to Chinese society (despite the fact that eighteenth-century Chinese



Keeping up with the Joneses: at a Louis Vuitton store in Shanghai, September 2012

entrepreneurs boasted of their fancy watches, bejeweled tobacco holders, and elaborate windscreens). As far back as 1776, in *The Wealth of Nations*, the economist Adam Smith portrayed the residents of Canton as beset by scarcity. “The subsistence which they find there is so scanty that they are eager to fish up the nastiest garbage thrown overboard from any European ship,” he wrote. Had he actually visited Canton, Smith might have seen it for the bustling center of global trade that it was.

Similar misconceptions have shaped Western beliefs about other societies as well, including the Soviet Union during the Cold War and Islamic countries today. In the 1980s, Trentmann notes, the Gulf region welcomed high-end Western shops

such as Marks and Spencer; today, it is a major player in the international market for luxury goods. After the Iranian and Saudi Arabian governments banned the sale of American Barbie dolls, entrepreneurs began selling the Fulla doll, adorned in traditional dress and a headscarf (but still equipped with a closetful of party dresses). From socialist governments to fascist ones, all modern regimes have found ways—often creative ones—to meet consumer demand.

“HELP FROM THE PUBLIC HAND”

Finally, Trentmann argues that consumption is a political phenomenon as much as an economic one, owing equally to changes in public policy and to markets. In the early modern period, governments

tended to restrict consumption to preserve the social order, as in fourteenth-century Europe, where many countries began passing so-called sumptuary laws, which dictated the kinds of items people could buy. In Nuremberg, for example, Trentmann notes that only “aristocrats, princes of the church,” and those in “respected professions” were allowed to dress themselves in silk, furs, and pearls, and only knights and doctors of law could wear gold threads. By the early twentieth century, however, governments had become instrumental in creating consumer societies, by subsidizing goods, building infrastructure, and lowering trade barriers.

Trentmann argues that consumer societies would be much weaker without “help from the public hand.” States subsidize consumption in a number of ways, including through social programs and urban infrastructure for transportation and electricity. No surprise, then, that the western European consumer boom of the 1950s and 1960s coincided with a massive expansion in government-funded housing, education, and health care. Such services “increase the propensity to consume,” Trentmann writes, “by reducing the need to save for a rainy day.”

Put simply, consumers are better understood as social beings than individual ones. Their spending habits owe not only to their disposable income but also to the pressures of class and culture. And governments have a vested interest in how consumers behave. In most nations before World War I, leaders were oblivious to the impact of consumer demand on the national economy. In the wake of the

Great Depression, however, as governments recognized the importance of spurring consumption to restoring national prosperity, consumers became more and more the objects of public policy and legal protections.

THE FUTURE OF CONSUMPTION

Much of *Empire of Things* deals with history, but Trentmann discusses a particularly contemporary subject in his epilogue: the relationship between consumption and equality. The conventional wisdom says that inequality stimulates competitive spending—the “keeping up with the Joneses” phenomenon. But Trentmann points out that consumer societies have generally thrived during times of greater equality. He argues that after World War II, for example, the development of welfare states “propelled mass consumption.”

Whatever the precise causal link between consumption and equality, the growth of consumer societies has certainly gone hand in hand with the erosion of class distinctions. In the seventeenth century, for example, global commerce brought exotic goods such as coffee, tea, porcelain, and precious cloth within reach of the Western bourgeoisie, which allowed them to challenge the power of the aristocracy as arbiters of taste. In the twentieth century, the arrival of transformative goods such as the automobile, radio, and television did something similar, as companies began to market them not only to the propertied few but also to ordinary people.

Today, Trentmann writes, “inequality is a brake on growth in the West and East, and so, too, on consumption.” Across the globe, low wages have caused

demand to stay low, aggravating trade imbalances and frightening investors. In the West, states have been largely unable to stave off declining incomes, high youth unemployment, and economic stagnation.

As the world enters a prolonged period of slow growth, Trentmann's history offers important lessons. The most important is that the wealth of nations depends on the wealth of their consumers. It has taken terrible economic crises and political upheavals to convince governments to place consumers at the heart of their economic systems—a lesson that today's leaders appear to have forgotten. Trentmann also argues that societies have constantly struggled to define what is a luxury and what is a necessity and have had to adapt as the former becomes the latter. As cars transformed from an indulgence to a necessity, for example, governments stepped in to build roads and guarantee cheap fuel. The Internet is undergoing a similar transition now, and states will have to figure out how to ensure equal access to it.

Trentmann's book reveals that consumer societies have been surprisingly mutable over time, as people's tastes and opinions have evolved. This lesson offers hope for the future. Although current levels of consumption have wasted natural resources and spurred climate change, there may yet be a future for sustainable growth. At the very least, societies will likely begin

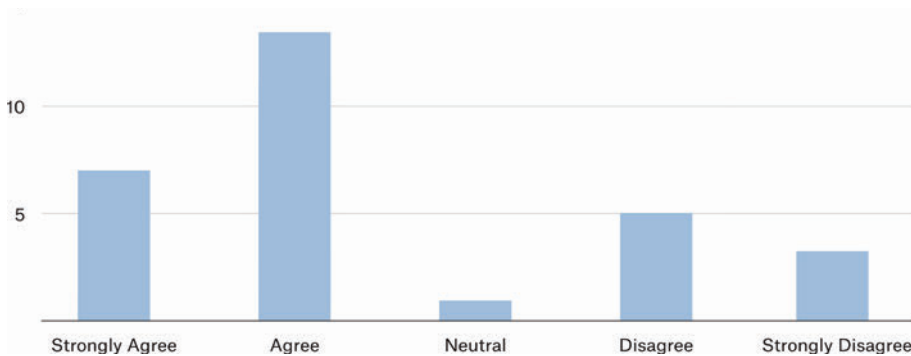
to build environmental calculations into public policy—for example, by adjusting the prices of goods to reflect the carbon embedded in them. Such policies will allow people to “gain a sense of the consequences of their lifestyles for the planet,” Trentmann writes. Ultimately, consumer societies must recognize that their actions affect not only people in other societies but also other species and the nonmaterial world at large. That recognition should be no more revolutionary than the one that placed the consumer at the heart of the global economic system. 🌐

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How Well Off Is Israel?

Foreign Affairs Brain Trust

We asked dozens of experts whether they agreed or disagreed that Israel is richer, stronger, and more secure today than at any other point in its history. The results from those who responded are below:



Agree

“Israel is richer and stronger today than it ever was; it’s likely more secure, too, but that depends on how you define security.

Israel’s wealth, its technological and military prowess, and the lack of conventional competitors among its neighbors are partially offset by the extreme regional volatility.”

NATAN SACHS is a Fellow at the Center for Middle East Policy at the Brookings Institution.



Disagree

“The unresolved conflict with Palestinians, the possibility of a collapse in security cooperation with the Palestinian Authority, the existence

of a hostile entity in Gaza, and the general regional turmoil mean that Israel’s current state of relative security is tenuous at best.”

MICHELE DUNNE is Director of and a Senior Associate at the Carnegie Endowment for International Peace’s Middle East Program.

▶ See the full responses at ForeignAffairs.com/StateofIsrael





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GOLIAT THE GIANT.

In an ice-free area in the Barents Sea off Norway, Eni starts production of Goliat: the first oil field to start production in the Barents Sea. Goliat was developed through FPSO, the largest and most sophisticated floating cylindrical production and storage vessel in the world. The Unit has a capacity of 1 million barrels of oil and was built with the most advanced technologies in order to tackle the technical and environmental challenges linked to operations in the Arctic's context. The daily output will reach 100,000 barrels of oil per day. Production will take place [...]

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