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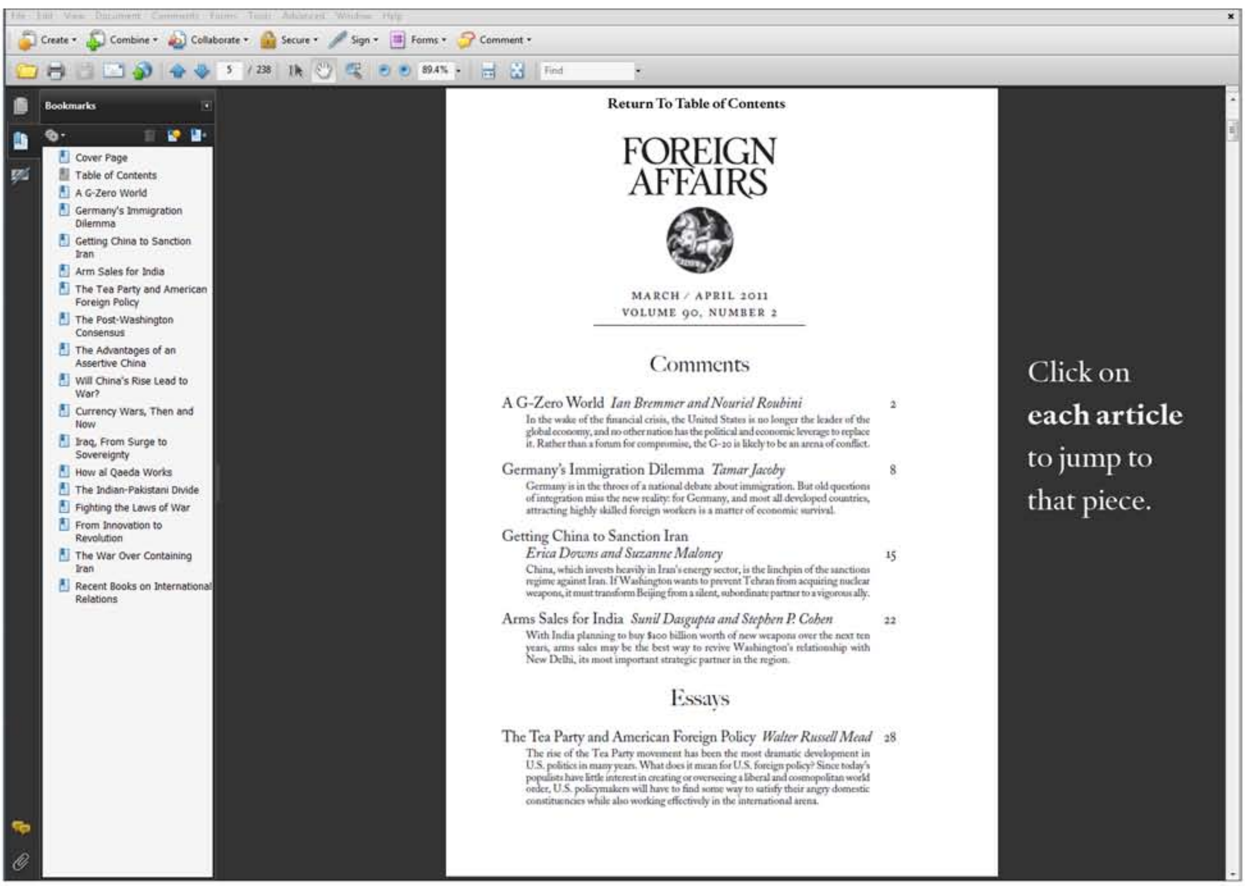

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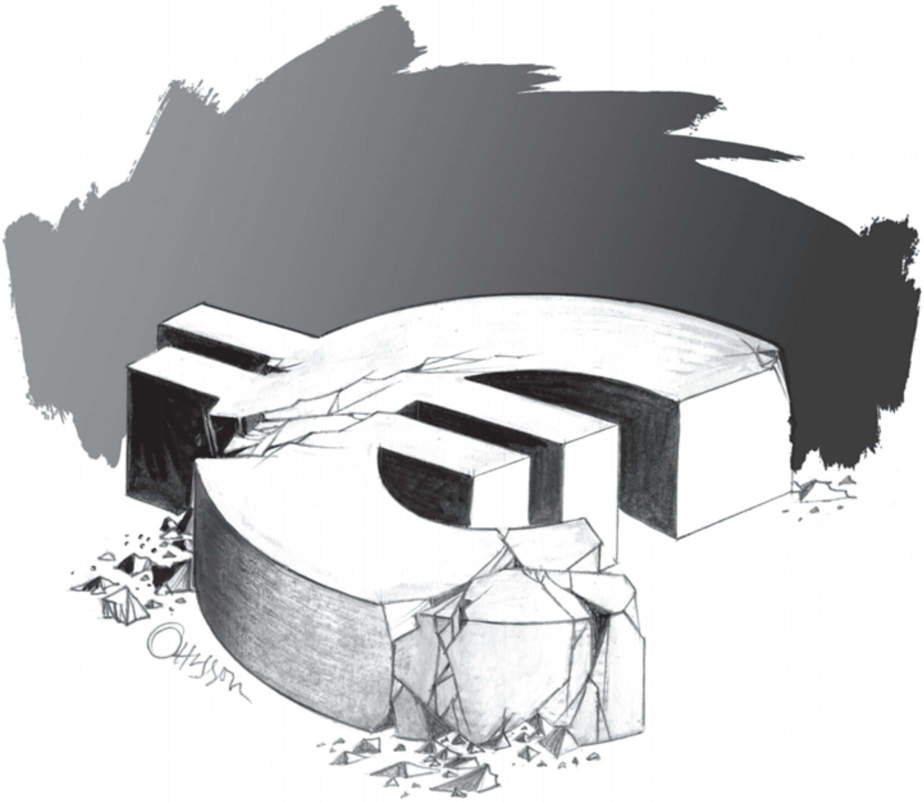
Eurodämmerung



Without the forces that once propelled it toward unity, the European Union will gradually decline in significance, like the Holy Roman Empire of yore.

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The Crisis of Europe

How the Union Came Together and Why It's Falling Apart

Timothy Garton Ash

May 10, 1943: German forces are destroying the Warsaw ghetto. Facing armed resistance from Polish Jewish fighters, they set fire to it house by house, burning some inhabitants alive and driving others out from the cellars. "Today, in sum 1,183 Jews were apprehended alive," notes the official report by the SS commander Jürgen Stroop. "187 Jews and bandits were shot. An indeterminable number of Jews and bandits were destroyed in blown-up bunkers. The total number of Jews processed so far has risen to 52,683." An appendix to this document contains the now-famous photograph of a terrified small boy in an outsize cloth cap, his hands held high in surrender. Marek Edelman, one of very few leaders of the Warsaw ghetto uprising to survive, concluded a memoir published immediately after the war with these words: "Those who were killed in action had done their duty to the end, to the last drop of blood that soaked into the pavements. . . . We, who did not perish, leave it up to you to keep the memory of them alive—forever."

Fast-forward exactly 60 years, to May 10, 2003, a month before Poland holds a referendum on whether to join the European Union. At a "yes" campaign rally in Warsaw, a banner in Poland's national colors, red and white, proclaims, "We go to Europe under the Polish flag." Outside the rebuilt Royal Castle, a choir of young girls in yellow and blue T-shirts—echoing the European flag's yellow stars on a blue background—breaks into song. To the music of the EU's official anthem, which is drawn from the final movement of Beethoven's Ninth Symphony, they sing, in Polish, the words of the German poet Friedrich Schiller's "Ode to Joy." Soon these young Poles will be able to move at will across most of a continent almost whole and free, to study, work, settle down, marry, and enjoy all the benefits of a generous European welfare state, in Dublin,

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Madrid, London, or Rome. "Be embraced, ye millions! This kiss to the entire world! Brothers, a loving father must live above that canopy of stars!"

To understand how a predicted crisis of European monetary union became an existential crisis of the whole post-1945 project of European unification, you have to see Europe's unique trajectory from one May 10 to the other. Both the memories of World War II and the exigencies of the Cold War drove three generations of Europeans to heights of peaceful unification that were unprecedented in European history and unmatched on any other continent. Yet that project began to go wrong soon after the fall of the Berlin Wall, as western European leaders hastily set course for a structurally flawed monetary union.

While many governments, companies, and households piled up unsustainable levels of debt, young Europeans from Portugal to Estonia and from Finland to Greece came to take peace, freedom, prosperity, and social security for granted. When the bubble burst, it left many feeling bitterly disappointed and led to excruciating divergences between the experiences of different nations. Now, with the current crisis still unresolved, Europe lacks most of the motivating forces that once propelled it toward unity. Even if a shared fear of the consequences of the eurozone's collapse saves it from the worst, Europe needs something more than fear to make it again the magnetic project it was for a half century. But what can that something be?

WAR ON THE MIND

Historians have identified many factors that contributed to the process of European integration, including the vital economic interests of European nations. Yet the single most important driving force across the continent was the memory of war. Among those parading down the streets of Warsaw in May 2003 was the bearded professor Bronislaw Geremek, who, as a ten-year-old Polish Jewish boy, had seen the Warsaw ghetto burning before his eyes. It was no accident that he became one of Poland's most ardent advocates of European integration, as a leader of the Solidarity movement, the Polish foreign minister, and then a member of the European Parliament.

To be sure, the Warsaw ghetto survivor, the Nazi soldier, the British officer, the French collaborator, the Swedish businessman, and the Slovak farmer had very different wars. Yet from all their throats rose the same passionate cry: "Never again!" For all the differences in national and subnational experiences across a hugely diverse continent, the historian Tony Judt could still title a history of Europe that covers the 60 years up to 2005 with a single word: *Postwar*. In this respect, if in no other, the European Union's favorite catch phrase, "Unity in diversity," was strictly accurate.

Those memories played an important role for those British Conservatives, most of them World War II veterans, who took the United Kingdom into the European Economic Community, the precursor to the European Union, in 1973. But above all, personal experience motivated those continental Europeans, up to and including French President François Mitterrand and German Chancellor Helmut Kohl, who created the EU of today. In a conversation I had with him after German reunification, Kohl delivered a line I will never forget. "Do you realize," he asked, "that you are sitting opposite the direct successor to Adolf Hitler?" As the first chancellor of a united Germany since Hitler, he explained, he was profoundly conscious of his historical duty to do things differently.

European integration has rightly been described as a project of the elites, but Europe's peoples shared these memories. When the project faltered, as it did many times, the elites' reaction was to seek some way forward, however complicated. Until the 1990s, when the custom of holding national referendums on European treaties began to spread, Europeans were seldom asked directly if they agreed with the solutions found, although they could periodically vote in or out of office the politicians responsible for finding them. Nonetheless, it is fair to say that for about 40 years, the project of European unification could rely on at least a passive consensus among most of Europe's national publics.

These 40 years were those of the Cold War, the other conflict that shaped the EU. From the 1940s through the 1970s, a central argument for Western European integration was to counter the Soviet threat, visible for all to see in the presence of the Red Army in East Germany and divided Berlin. Beside the memories of Europe's own self-inflicted barbarism, there were, so to speak, the barbarians at the gate. Soviet leaders from Joseph Stalin to Leonid Brezhnev should be awarded posthumous medals for their service to European integration.

Cold War competition also goes a long way to explaining why the United States lent such strong support to European unification, from the Marshall Plan of the 1940s to the diplomacy surrounding the reunification of Germany and the dissolution of the Soviet Union in 1989–91.

For the half of Europe stuck behind the Iron Curtain—what the Czech writer Milan Kundera called "the kidnapped West"—the will to "return to Europe" went hand in hand with the struggle for national and individual freedom. The growing prosperity of Western Europe had a magnetic effect on those who saw it, whether at first hand or on Western television.

It is the most elementary historical fallacy to suggest that an event was caused by one that occurred after it, yet something that was only to happen in 1992 was a contributing cause of the velvet revolutions of 1989. The target year 1992, the widely trumpeted deadline that the European Economic Community had given itself for completing its single market, conveyed an urgent sense of being left ever-further behind, not just to the peoples of Eastern Europe but also to reform-minded Soviet-bloc leaders, including Mikhail Gorbachev.

This brings us to the last great motor of European integration until the 1990s: West Germany. The West Germans, both the elites and a large part of the populace, demonstrated an exceptional commitment to European integration. They did this for two very good reasons: because they wanted to, and because they had to. They wanted to show that Germany had learned from its terrible pre-1945 history and wished to rehabilitate itself fully in a European community of values, even to the point of surrendering much of its own sovereignty and national identity. Having been the worst Europeans, the Germans would now be the best. (As a joke at the time went, if someone introduced himself just as "a European," you knew immediately that he was German.) But they also had a hard national interest in demonstrating that European commitment, for only by regaining the trust of their neighbors and international partners (including the United States and the Soviet Union) could they achieve their long-term goal of German reunification. As Hans-Dietrich Genscher, the former West German foreign minister, once observed, "The more European our foreign policy is, the more national it is." West German Europeanism was not simply instrumental—it reflected a real moral and emotional engagement—but nor was it purely idealistic.

After the two German states were reunited in 1990, many observers wondered whether what was essentially an expanded West Germany would continue this extraordinary commitment to European integration. Well before the crisis of the eurozone broke, the answer was already apparent. Reunited Germany had become what some participants in the post-Wall debate called a "normal" nation-state—a "second France," in the commentator Dominique Moïsi's striking phrase. Like France, the new Germany would pursue its national interests through Europe whenever possible, but on its own when it deemed it necessary—as it did, for example, when securing its energy needs bilaterally with Russia, notably in the Nord Stream gas pipeline deal of 2005. Its leaders, in Berlin now, not Bonn, would still try to be good Europeans, but they would no longer open the checkbook so readily if Europe called.

THE BIRTH OF A MALFORMED UNION

The immediate origins of the malformed currency union that is at the epicenter of today's European crisis also lie in the tempestuous moment of German reunification and its aftermath. Following the fall of the Berlin Wall on November 9, 1989, Mitterrand, alarmed by the prospect of German reunification, pushed hard to pin Kohl down to a timetable for what was then called economic and monetary union. That proposal had already been elaborated to help the European Economic Community complete its single market and address the difficulty of managing exchange rates within it. Mitterrand's general purpose was to bind a united Germany, if united those two Germanies really must be, into a more united Europe; his specific purpose was to enable France to regain more control over its own currency, and even win some leverage over Germany's.

In a remarkable conversation with Genscher, the West German foreign minister, on November 30, 1989, Mitterrand went so far as to say that if Germany did not commit itself to the European monetary union, "We will return to the world of 1913." Meanwhile, Mitterrand was stirring up British Prime Minister Margaret Thatcher to sound the alarm as if it were 1938. According to a British record of their private meeting at the crucial Strasbourg summit of European leaders in December 1989, Mitterrand said that "he was fearful that he and the Prime Minister would find themselves in the situation of their predecessors in the 1930s who had failed to react in the face of constant pressing forward by the Germans."

ENDURING INNOVATION

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David Marsh, the best chronicler of the euro's history, concludes that the "essential deal" to proceed with monetary union was done at Strasbourg. Tough negotiations followed, and exactly two years later a treaty was agreed on in the small Dutch city of Maastricht, setting the basic terms of what would become today's eurozone. It is too simplistic to characterize this as a straight tradeoff: "the whole of Deutschland for Kohl, half the deutsche mark for Mitterrand," as one wit quipped at the time. But Germany's need for its closest European allies—above all, France—to support its national reunification had a decisive influence on both the timetable and the design of Europe's monetary union.

To be sure, Kohl was a deeply committed European. He never tired of repeating that German and European unification were "two sides of the same coin." So now, he told U.S. Secretary of State James Baker three days after the Strasbourg summit, he had even agreed to a European monetary union. What stronger proof could he offer of Germany's European credentials? Kohl "took this decision against German interests," the German minutes of that meeting record him telling Baker. "For example, the president of the Bundesbank was against the present development. But the step was politically important, since Germany needed friends." As one does, when one is trying to unite Germany without blood and iron.

The design of the resulting monetary union can also be understood, like so much else in the history of European integration, as a Franco-German compromise. At the insistence of Germany, and especially of the Bundesbank, the European Central Bank would be a Bundesbank writ large, fiercely independent of governments (unlike in the French tradition) and devoted with Protestant fervor to the one true god of price stability (lest the Weimar nightmare of hyperinflation return). To his credit, Kohl wanted the monetary union to be complemented by a fiscal and political union, so there could be control of public spending and coordination of economic policy among the states, and more direct political legitimation of the whole enterprise. "Political union is the essential counterpart to economic and monetary union," he told the Bundestag in November 1991. "Recent history, not only in Germany, teaches us that it is absurd to expect in the long run that you can maintain economic and monetary union without political union."

But France was having none of that. The point was for it to gain some control over Germany's currency, not for Germany to gain control over France's budget. So the discussion of a fiscal union withered away into a set of "convergence criteria," which required would-be members of the monetary union to keep public debt under 60 percent of GDP and deficits under three percent.

Thus, in the Sturm und Drang of the largest geopolitical change in Europe since 1945, a sickly child was conceived. Most Germans opposed giving up their treasured deutsche mark. But they would not be asked; the West German constitution did not envisage referendums. Kohl had no intention of changing that. Alexandre Lamfalussy, the head of the European Monetary Institute, the precursor to the European Central Bank, later recalled telling him, "I don't know how you will get the German people to give up the D-Mark." Kohl's reply: "It will happen. The Germans accept strong leadership."

In France, meanwhile, the Maastricht Treaty scraped through in a September 1992 referendum with a yes vote of just over 50 percent. The passive consensus for further steps of European integration, advancing ever closer to the heart of national sovereignty, was beginning to break down even in heartlands of the postwar project.

A CRISIS FORETOLD

With a hat tip to Gabriel García Márquez, a history of Europe's monetary union could be called *Chronicle of a Crisis Foretold*. By the time the eurozone's 11 founding member states were preparing to introduce a common currency on January 1, 1999, most of the problems that would beset the euro a decade later had been predicted.

Critics at the time questioned how a common currency could work without a common treasury, how a one-size-fits-all interest rate could be right for such a diverse group of economies, and how the eurozone could cope with economic shocks that varied from region to region—what economists call "asymmetric shocks." For Europe had neither the labor mobility nor the level of fiscal transfers between states that characterized the United States.

"Since 1989, we have seen how reluctant West German taxpayers have been to pay even for their own compatriots in the east," noted one article in these pages in 1998. "Do we really expect that they would be willing to pay for the French unemployed as well?" Reporting a widespread view that the monetary union would face a crisis sooner rather than later, and that this would catalyze the necessary political unification, the author cautioned, "It is a truly dialectical leap of faith to suggest that a crisis that exacerbates differences between European countries is the best way to unite them."

Since I was that author, I should add that I did not anticipate three important things. First, I did not expect that the monetary union would flourish for so long. For nearly a decade, the euro appeared to be strong, edging up toward the dollar as a global trading and reserve currency. For businesses, it removed the risk of exchange-rate fluctuations inside the eurozone. For the rest of us, it was a delight to be able to travel from one end of the continent to the other without having to change currencies. To visit Dublin, Madrid, or Athens was to see cities booming as never before. Small wonder that in 2003 those young Poles sang Schiller's "Ode to Joy" at the prospect of joining the happy Irish, Spaniards, and Greeks. And I, like others sympathetic to the project, was lulled into a false sense of security.

Because the crash came later than originally expected, it was worse when it came. Over time, enormous imbalances had built up between the core, mainly northern European countries (above all, Germany), and the peripheral, mainly southern European countries (especially Portugal, Ireland, Italy, Greece, and Spain, which have sometimes been unkindly labeled "the PIGS").

To be sure, the initial shocks that started the earthquake came from outside Europe, in the U.S. subprime mortgage market. In this sense, the travails of the eurozone are part of a broader crisis of Western financial capitalism.

Yet the second thing we did not fully anticipate in the 1990s was the extent to which the eurozone would generate its own asymmetric shocks. Whereas Germany, still staggering under the financial burden of German reunification, impressively massaged down its labor costs, trimmed its welfare spending, and became competitive again, many of the peripheral countries allowed their unit labor costs to soar.

While Germany and some other northern European countries maintained fiscal discipline and moderate levels of debt, many of the peripheral countries went on the mother of all binges. In some places, such as Greece, it was public spending that skyrocketed; in others, such as Ireland and Spain, it was private spending. The open sesame to both kinds of excess was the same: governments, companies, and individuals could borrow at unprecedentedly low interest rates thanks to the credibility that eurozone membership lent their countries. In effect, Greece, which had snuck into the eurozone in 2001 with the aid of falsified statistics, could borrow almost as if it were Germany.

When, therefore, Germany was asked to help bail out those countries, German voters were understandably indignant. Why should we work even harder and retire even later, they asked, so these feckless Greeks, Portuguese, and Italians can retire earlier than we do and go sun themselves on the beach? "Sell your islands, you bankrupt Greeks," snorted *Bild*, Germany's largest tabloid, in October 2010.

The Germans had a good point: they had demonstrated remarkable prudence; the peripheral countries had not. But there was another side to the story. The moment the Stability and Growth Pact (the formalized successor to the convergence criteria) was revealed to be toothless was when Germany itself, along with France, violated the deficit limit of three percent of GDP in 2003–4. The penalties envisaged in the pact were not even enforced.

Moreover, Germany had fared so well partly because the peripheral countries had fared so badly. The peripheral eurozone countries could no longer compete with Germany on price by devaluing their own national currencies, and part of their binge spending went to buying more BMWs and Bosch washing machines. The euro also enabled German exporters to price their goods more competitively in markets such as China. (One study, by Nathan Sheets and Robert Sockin of Citigroup, estimated that Germany's lower real exchange rate, courtesy of the euro, has lifted its real trade surplus by about three percent of GDP annually.) As the economist Martin Feldstein noted in these pages, in 2011 Germany's $200 billion trade surplus roughly equaled the rest of the eurozone's combined trade deficit. Germany was to Europe what China is to the world: the exporter that requires others to consume.

In addition, Germany and other northern European countries with current account surpluses recycled those surpluses partly by lending to Greeks, Irish, Portuguese, and Spaniards. So when Germany bailed out the peripheral eurozone countries, it was also bailing out its own banks.

The third element few foresaw in the 1990s was the spiraling scale, speed, and folly of global financial markets. Most egregious, bond markets contributed to the burgeoning imbalances by mispricing sovereign risk in general and the differential risk between various eurozone government bonds in particular. Despite the presence of a "no bailout" clause in the Maastricht

Treaty, bond traders acted as if the risk associated with lending to the Greek or Portuguese governments was only fractionally higher than that of lending to Germany or the Netherlands.

When belief in the solidity of the eurozone began to collapse, soon after its tenth birthday, the markets plunged to the other extreme. Again and again, they punished eurozone leaders' belated half measures with soaring bond yield spreads, so that country after country found its borrowing costs whizzing upward. At interest rates of five to eight percent, it becomes very difficult for a government to sustain its debt burden, even with the most exemplary German-style fiscal discipline and structural reform. There was only so much that even the wisest and most economically responsible leaders, such as Italian Prime Minister Mario Monti, could ask of their own people.

EUROPE'S DYSFUNCTIONAL TRIANGLE

Structurally, Europe now finds itself caught in a dysfunctional triangle, between national politics, European policies, and global markets. Ever since the European Coal and Steel Community was founded, in 1951, integration has proceeded through the development of common European policies: from those on agriculture, fisheries, and trade, all the way to monetary policy. The democratic politics of the EU have, however, remained stubbornly national.

While the volcanic magma was heating up under the outwardly calm crust of the eurozone, European leaders spent much of this century's first decade engaged in an ambitious attempt to write what some called a constitution for Europe. To cope with both the deepening of the EU, through monetary union, and its widening, through the historic enlargement to eastern Europe, they proposed a new set of institutional arrangements for the EU's 27 states (since 2007) and 500 million people. But in referendums, voters in France and the Netherlands rejected even a watered-down version of these lofty plans. "The nations don't want it," commented Geremek, that passionate but also realistic European, shortly before he died in 2008.

So the mountain labored again, and brought forth a mouse. The Treaty of Lisbon, which came into force in 2009, did give more powers to the directly elected European Parliament. But decision-making in today's EU still consists mainly of national politicians cutting deals behind closed doors in Brussels. And the politics and media they worry about are national, not European. There are Europe-wide political groupings, based on those in the European Parliament, but there are no truly European politics. The average turnout for elections to the European Parliament has declined with every vote since direct elections began in 1979. Although there are some good Europe-wide media outlets, watched and read by a happy few, there is no broader European public sphere.

The French historian Ernest Renan said that a nation is "an everyday plebiscite." Well, today's EU has an election almost every day, but these are national elections, conducted in different languages and in national media. Increasingly, the election campaigns feature parties that blame the country's current travails on other European nations, or on the EU itself, or on both. Visiting Maastricht earlier this year—a city now a little worried about its place in the history books—I was told how the anti-immigrant and anti-Islamic Dutch populist Geert Wilders has redirected his political fire against "Europe." That's where he thinks the votes are now.

At the same time, panicky global markets instantly impinge on both European policies and national politics. As country after country finds its credit rating cut and its borrowing costs going through the roof, governments tremble and call yet another emergency summit in Brussels. As the clock ticks into the early hours, exhausted national leaders are torn between their terror of what the markets will do to them when trading opens the next morning and their terror of what their national media, coalition partners, parliaments, and voters will do to them when they get back home.

As soon as the meeting ends, each leader will dash out from the conference room to brief his or her own national media, so that every time, there is not just one version of a European summit but 27 different ones—plus a 28th, the implausibly irenic conclave described by the EU's own clutch of institutional heads. This is Europe's political *Rashomon*, with 28 conflicting versions of the same event delivered in 23 languages. It is an odd way to run a continent.

THE MISSING INGREDIENTS

Europe's monetary union was a bridge too far—meaning not a bridge that should never have been crossed but a bridge that was crossed too soon, before Europe was strategically prepared to defend it. To be sure, carrying on for another decade or two with a system of fixing the margins within which exchange rates could fluctuate—the so-called Exchange Rate Mechanism—would have been demanding. But it is hard to disagree with this retrospective judgment by the economic commentator Martin Wolf: "Consider how much better off Europe would have been if the exchange rate mechanism had continued, instead, with wide bands."

We also have to consider other roads not taken. What if, instead of introducing the euro, Europe had deepened its still-far-from-complete single market? What if the whole EU had concentrated on improving its competitiveness, as Germany did so impressively, and not merely paid lip service to that goal in a catalog of good intentions called "the Lisbon agenda"? What if it had used this time to develop a more effective foreign policy? But regret is futile. An old and now politically incorrect English joke has an American couple arriving at a crossroads, deep in the Irish countryside, and asking a tweed-clad farmer the way to Tipperary. "If I were you," says the Irishman, "I wouldn't start from here." Yet here is where we are.

At the end of June this year, the EU held yet another "save the euro" summit—by a rough count, the 19th of the crisis. Germany said it would allow special European funds to be used to help imperiled Spanish banks, and the eurozone states resolved to create a single banking supervisory structure run by the European Central Bank. Although nobody noticed, the summit communiqué was a reminder of useful things the EU continues to do. For example, European leaders reached agreement on a unitary European patent system, which is expected to lower patenting costs for European companies by as much as 80 percent. They also decided to open accession negotiations with Montenegro, a newly independent state that just 13 years ago was still embroiled in the wars of former Yugoslavia.

As of this writing, no one knows how the euro saga will end. The possibilities include a total, disorderly collapse of the eurozone, a continued muddling through, and, most optimistically, systemic consolidation into a genuine fiscal and political union. Yet even if the eurozone crab-marches toward a political union, it will still have to generate the solidarity among its citizens necessary to underpin it, a degree of European compatriotism that does not yet exist. Another open question is how a more united eurozone core, which would itself contain creditor and debtor nations with very different perspectives, would relate institutionally and politically to EU member states not in the zone, such as the United Kingdom, Sweden, and Poland.

According to one projection by analysts at ING, a total collapse of the eurozone could cause GDP to fall by more than ten percent over two years in all the leading European economies, including Germany. Coming on top of the hardships already endured, that could lead to dangerous political radicalization. (Unlike in the 1930s, such radicalization, to the far right and the far left, has been remarkably limited so far, even in Greece—a tribute to the resilience of contemporary European democracies.) But even if the eurozone falls apart, there will still be a place called Europe and probably a set of institutions called the European Union. And there will be a new yet also familiar historic challenge for Europeans: to pick themselves up from the ruins and rebuild.

Today's crisis is the greatest test yet of what has been called "the Monnet method" of unification, after Jean Monnet, a founding father of European integration. Monnet proposed moving forward, step by step, with technocratic measures of economic integration, hoping that these would catalyze political unification—not least through moments of crisis. "Crises are the great unifier!" he once explained. Yet even in the first 40 years of European integration, crises sometimes pulled Europe together and sometimes did not. If they tended more often to promote unity than division, that was in large part thanks to wartime memories and Cold War imperatives. So where are the drivers of integration now? Go back down the list.

A single market of 500 million consumers remains a powerful economic attraction for most European countries. However, it no longer seems as evident as it once did that Europe brings steadily growing prosperity and welfare to all its citizens. Exporting nations, especially Germany, and global service providers, such as the United Kingdom, are increasingly looking to emerging markets, where the growth is.

Unlike during the Cold War, there is no obvious external threat in Europe's front yard. Try as he might, Vladimir Putin just does not match up to Stalin, or even Brezhnev. Could China step into that role? Without stigmatizing China as an enemy, the most compelling new rationale for European unification is indeed the rise of non-Western great powers: China, mainly, but also India, Brazil, and South Africa.

One cannot simply extrapolate from current economic and demographic trends, but in any likely world of 2030, even Germany will be a small to medium-sized power. Then, the only effective way to defend the freedoms and advance the shared interests of all Europeans will be to act together and speak with one voice. Intellectually, this argument is persuasive. But emotionally, to sway a wider public, it does not compare with the visible presence of the Red Army at the heart of Europe.

If Russia no longer fits the bill for an external threat, the United States no longer plays the part of active external supporter. Already in 2001, President George W. Bush could ask, in a private meeting, "Do we want the European Union to succeed?" Part of his administration, at least in his first term, was inclined to answer no. President Barack Obama would definitely answer yes, but until the eurozone crisis threatened the U.S. economy, and hence his reelection prospects, it was hardly a priority. His administration has taken Europe as it has found it and dealt pragmatically with Brussels or with individual countries—whatever worked. Its geopolitical focus has been on China and Asia more generally, not Russia and Europe.

Conceivably, the United States' attitude could change if China really came to be seen as the new Soviet Union, a global geopolitical threat to the West. Then one option would be for Washington to seek a closer strategic partnership with a more united Europe, including, for example, a transatlantic free-trade area. Old Europe and its cousins across the water would work toward what Édouard Balladur, the former French prime minister, has imagined as a "Western Union." But there is scant evidence of such thinking at the moment. Rather, both the United States and Europe are making their own tense accommodations with China.

Another past driver of integration, eastern European yearnings, still has some traction today. Eastern Europeans have more recent memories than other Europeans do of dictatorship, hardship, and war. Many appreciate the new freedoms they enjoy in the EU; for some, belonging to the same club as western Europeans is the realization of a centuries-old dream. One Polish economist explains why Poland still aspires to join the eurozone thus: "We want to be on board the ship, even if it is sinking!" Of course, they would rather the ship stays afloat. Last fall, in a speech in Berlin, Radoslaw Sikorski, the Polish foreign minister, memorably observed, "I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity."

EUROPEAN GERMANY, GERMAN EUROPE

Germany is the key to Europe's future, as it has been, one way or another, for at least a century. The irony of unintended consequences is especially acute here. If Kohl was the first chancellor of a united Germany since Hitler, François Hollande is the first Socialist president of France since Mitterrand, and it is Mitterrand's legacy he has to wrestle with. Monetary union, the method through which Mitterrand intended to keep united Germany in its proper place—co-driver with France, but still deferential to it—has ended up putting Germany at the wheel, with France as an irate husband flapping around in the passenger seat ("Turn left, Angela, turn left!").

At the time of German reunification, German politicians never tired of characterizing their goal in the finely turned words of the writer Thomas Mann: "Not a German Europe but a European Germany." What we see today, however, is a European Germany in a German Europe. This Germany is an exemplary European country: civilized, democratic, humane, law-abiding, and (although Mann might not have rated this one) very good at soccer. But the "Berlin Republic" is also at the center of a German Europe. At least when it comes to political economy, Germany calls the shots. (The same is not true in foreign and defense policy, where France and the United Kingdom are more important.) This is not a role Germany sought; leadership has been thrust upon it.

Moreover, if the need to win support for German reunification drove Kohl to accept European monetary union on a tight timetable, and without the political union he thought essential to sustain it, German reunification has changed the German attitude to the European project. The very same set of closely linked historical developments that has now produced, 20 years on, the need for a special German contribution to Europe has in the meantime reduced both the country's idealistic desire and its instrumental need to offer that contribution.

Were he still chancellor, Kohl would surely insist that the euro must be saved by moving decisively toward a political union. Merkel and her compatriots have reacted very differently, reluctantly doing the minimum needed to prevent collapse. The modest and plain-speaking Merkel is in many ways the personification of the civic, modern European virtues of this new Germany. She is also a brilliant and ruthless domestic political tactician. Whatever her personal convictions, she knows she faces what may be called the four Bs: the Bundestag (the lower house of the national parliament, from which Germany's most pro-European politicians have largely migrated to the European Parliament, another unintended consequence of that well-intended institution), the Bundesverfassungsgericht (the country's constitutional court, deliberately established after 1945 to be a U.S.-style check on a leader's power), the Bundesbank (still very influential in the German debate), and, last but by no means least, the populist tabloid *Bild*.

Many Germans resent the idea of bailing out Greeks and Spaniards and recall that they were given no say on Kohl's decision to give up the deutsche mark. In a German opinion poll conducted in May 2012, no less than 49 percent of respondents said it had been a mistake to introduce the euro. So far, the benefits they have derived from the euro have not been adequately explained. Yet this European Germany is a free country, open to argument, and some are now making the attempt.

MEMORY, FEAR, AND HOPE

The greatest single driving force of the European project since 1945, personal memories of war, has disappeared. Where individual memory fades, collective memory should step in. Remember Edelman's appeal: "We, who did not perish, leave it up to you to keep the memory of them alive—forever." Yet most young Europeans' consciousness of their continent's tortured history is shallow. Their formative experiences have been in a Europe of peace, freedom, and prosperity. Even younger eastern Europeans from states such as Estonia, which did not exist on most maps just 22 years ago, have come to take these hard-won achievements for granted. In this sense, the deepest problem of the European project is the problem of success.

Over the last decade, European peoples with historical complexes about being consigned to the periphery of Europe felt themselves to be at last entering the core. Eastern Europeans joined the EU. Southern Europeans thought they were flourishing in the eurozone. In Athens, Lisbon, and Madrid, there was a sense of a leveling up of European societies, of a new, not merely formal equality among nations.

Now that illusion has been shattered. In Greece, the homeless line up at soup kitchens, pensioners commit suicide, the sick cannot get prescription medicines, shops are shuttered, and scavengers pick through dustbins—conditions almost reminiscent of the 1940s. In Spain, every second person under the age of 25 is unemployed; across the eurozone, the average is nearly one in four. But the pain is unevenly spread. In Germany, youth unemployment is comfortably under ten percent. There is a new dividing line across Europe, not between east and west but between north and south. Now, and probably for years to come, it will be a very different experience to be a young German or a young Spaniard, a young Pole or a young Greek.

Think back to those two May 10 moments in Warsaw. Someone whose formative teenage experience was of the terrors of 1943 would find today's crisis shocking, but still not half as bad as what he remembered—and he would insist that Europe must never fall back to that.

The teenager of 2003 has a different mental lens: this is terrible, she thinks, and not what she was led to expect.

Europeans such as Geremek and Kohl witnessed Europe tear itself apart, and then dedicated themselves to building a better one. The generation of Spain's *indignados*, young protesters who have rallied across the country since May 2011, grew up in that better Europe, and have now been thrown backward. The trajectory of those who were, say, 15 years old in 1945 went from war to peace, poverty to prosperity, fear to hope. The trajectory of those who were 15 in 2003, especially in the parts of the continent now suffering the most, has arched in the opposite direction: from prosperity to unemployment, convergence of national experiences to divergence, hope to fear.

Could this very discontent provide the psychological basis for a popular campaign to save Europe? The signs are not promising. Popular movements have arisen during the crisis, but they have pointed in other directions. One of the largest was against the Anti-Counterfeiting Trade Agreement, which many young Europeans saw as a threat to their online freedom. The *indignados* of all countries, Europe's counterparts to the Occupy Wall Street movement, rail against bankers, politicians, and baby boomers, whom they see as having stolen their future. An interview-based survey of activists in these diverse campaigns, coordinated by Mary Kaldor and Sabine Selchow of the London School of Economics, found that the EU is either invisible among them or viewed somewhat negatively.

Fear should not be underestimated as a motivating force in politics. When, in a repeat election this June, the Greeks narrowly voted for parties that were serious about keeping the country in the eurozone, the Swiss cartoonist Patrick Chappatte drew a weary-looking man standing next to a ballot box in the shadow of the Acropolis and exclaiming, "Good news! Fear triumphed over despair." Adapting a famous phrase of U.S. President Franklin Roosevelt, one might almost say that today Europe has nothing to put its hope in but fear itself.

The fear of collapse, the Monnet-like logic of necessity, the power of inertia: these may just keep the show on the road, but they will not create a dynamic, outward-looking European Union that enjoys the active support of its citizens. Without some new driving forces, without a positive mobilization among its elites and peoples, the EU, while probably surviving as an origami palace of treaties and institutions, will gradually decline in efficacy and real significance, like the Holy Roman Empire of yore. Future historians may then identify some time around 2005 as the apogee of the most far-reaching, constructive, and peaceful attempt to unite the continent that history has ever seen.

Why the Euro Will Survive

Completing the Continent's Half-Built House

C. Fred Bergsten

As doom and gloom about the euro abound, an increasing number of commentators and economists question whether the common currency can survive. The world economy, they allege, is teetering on the edge of an even deeper crisis than today's.

To be sure, the eurozone faces serious economic and financial problems. The area is in the midst of multiple overlapping and mutually reinforcing crises. The first is a fiscal crisis, which has taken its biggest toll in Greece but pervades the southern part of the eurozone and Ireland. The second is a competitiveness crisis, long evident in the large current account deficits along the eurozone's periphery and the even larger current account imbalances between eurozone countries. The third is a banking crisis, which first unfolded in Ireland and has become particularly acute in Spain.

Yet for all the turmoil, fears of countries' repeatedly defaulting on their debts or the total collapse of the euro are vastly overblown. The eurozone countries have demonstrated that they can and will resolve each successive stage of the crisis by cooperating and sharing decision-making powers. They have created a host of new continent-wide institutions, built a substantial financial firewall to prevent debt problems from spreading, and are now well on their way to creating a banking union and a partial fiscal union. When the dust settles, the common currency, and indeed the entire project of European integration, is likely not only to survive but to emerge even stronger.

WATCH WHAT THEY DO, NOT WHAT THEY SAY

The European crisis is rooted in a failure of institutional design. The Economic and Monetary Union (EMU) that Europe adopted in the 1990s comprised an extensive, if incomplete, monetary union, anchored by the euro and the European Central Bank (ECB). But it included virtually no economic union: no fiscal

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union, no banking union, no shared economic governance institutions, and no meaningful coordination of structural economic policies.

The EMU's architects assumed that economic union would inexorably follow monetary union. But European countries faced no pressure to create one during the years of expansion prior to the Great Recession. When the crisis hit, the absence of crucial policy tools constrained Europe's ability to reach a solution quickly, triggering severe market reactions that continue to this day. Europe now has only two options. It can jettison the monetary union, or it can adopt a complementary economic union. Given how much is at stake, Europe will almost certainly complete the original concept of a comprehensive economic and monetary union.

From its creation in the 1990s, the common currency has lacked the institutions necessary to ensure that financial stability can be restored during times of acute uncertainty and market volatility. The task before the eurozone's leaders today therefore consists of much more than putting together a financial bailout sufficient to restore market confidence. They must rewrite the eurozone's rule book and complete the half-built euro house. This will require both creative financial engineering to resolve the immediate crisis and the establishment of a wave of new institutions to strengthen the real economy and restore growth.

To divine the likely trajectory of the euro, one should look at what the Europeans have done rather than what they have said. They have resolved the many crises that have threatened the integration project throughout its more than six-decade history in ways that ultimately resulted in a more unified Europe. At each key stage of the current crisis, they have done whatever was necessary to avoid the euro's collapse. In the crunch, both Germany and the ECB—the continent's financial powerhouses—have demonstrated that they will pay whatever is necessary to avert disaster.

The problem for the markets is that for two reasons these central players cannot say outright that they will always come to the euro's rescue. First, an explicit commitment to unlimited bailouts would represent the ultimate moral hazard. It would relieve the debtor countries of the pressure their leaders need to sell tough political decisions to their parliaments and publics in order to effectively adjust their economies.

Indeed, it is the intention of neither Germany nor the ECB to end the crisis quickly. Rather, their goal is to use the crisis to further the economic reforms needed to create a strong European economy over the long run. This helps explain why the eurozone authorities have not built as large a financial firewall as the markets have craved.

Second, each of the four main classes of creditors—Germany and the other strong northern European governments, the ECB, private-sector lenders, and the International Monetary Fund (acting as a conduit for funding from non-EU governments, such as Beijing)—will naturally try to transfer as much as possible of the cost of a financial rescue to the other three.

Europe's financial turmoil, then, is not only a crisis of faulty institutions; it is also one of presentation. The markets will not receive the sweeping declarations that they want and so will periodically revert to states of high anxiety. But every policymaker in Europe and even the European publics know that the collapse of the euro would be a political and economic disaster. And fortunately, since Europe is an affluent region, solving the crisis is a matter of mobilizing the political will to pay, rather than the economic ability.

Each of Europe's key political actors will exhaust all options in trying to secure the best possible deal for itself before at the last minute coming to an agreement. The result is a messy process, exacerbated by the cacophony of voices within each country, which understandably unsettles markets. The possibility of miscalculation will continue to loom over Europe. But pressure from the financial markets will ultimately prod the eurozone to find the way forward. And Europe's overriding political imperative to preserve the project of integration will drive its leaders to secure the euro and restore the economic health of the continent.

AN IMPERFECT UNION

More than anything else, the project of European integration was driven by the geopolitical goal of halting the carnage that had ravaged the continent for centuries and reached its murderous zenith in the first half of the twentieth century. This overriding imperative has driven successive generations of political leaders to subordinate their states' national sovereignty to the greater goal of maintaining and extending the European project.

The region's vision of that project always included the concept of a common currency. In early plans for monetary integration, such as the 1970 Werner report and the 1989 Delors report, monetary union was supposed to go hand in hand with an economic union that would place binding constraints on member states. But when the common currency finally came to be, it was not because of a carefully considered and detailed economic analysis. It was instead a result of geopolitics. The unforeseen shock of German reunification in October 1990—and the fear this produced in Paris of a newly dominant Germany—provided the impetus for the Maastricht Treaty of 1992, which paved the way for the creation of the euro.

The imperative of quickly launching the euro meant that politically necessary compromises, rather than unambiguous rules, would determine the currency's framework. For example, since the founding members of the eurozone came from very different economic starting points, it was politically infeasible to impose firm fiscal criteria for membership. As a result, by 2005, the eurozone was a common currency area that was composed of very dissimilar countries, lacked a central fiscal authority or any way to enforce budget discipline, and had made virtually no progress toward bringing its countries' macroeconomic policies into line.

Initially, none of these design flaws mattered. But as borrowing costs in private financial markets across the eurozone fell toward the traditionally low interest rates of Germany, many new members suddenly had access to unprecedented amounts of credit regardless of their economic fundamentals. The financial markets failed to assess the riskiness of different countries, and European leaders continued to deny any problems in the common currency's design. As a result, in the run-up to the

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global financial crisis, governments and private sectors built up unsustainable amounts of debt. So when the eurozone was finally struck by its first serious financial crisis in 2009, it had to contend not only with huge debt overhangs but also with a faulty institutional design that prevented an expeditious solution.

PLAYING CHICKEN

The eurozone was woefully unprepared for the Great Recession. It entered the crisis as a common currency zone flying on just one engine—the ECB—without the kind of unified fiscal entity that traditionally helps countries combat large financial crises. The eurozone's leaders have had to build from scratch their crisis-fighting capacities and bailout institutions: the European Financial Stability Facility (EFSF) and, subsequently, the European Stability Mechanism. And in the midst of stemming an immediate crisis, they have had to reform the flawed foundational institutions of the area.

The ECB, as the only eurozone institution capable of affecting financial markets in real time, wields tremendous power. Its institutional independence is enshrined in the EU treaty, and it does not answer to any government. Unlike normal central banks, which always have to worry about losing their independence, the ECB in this crisis has been able to issue direct political demands to national leaders, as in August 2011, when it conveyed an ultimatum for reform to then Italian Prime Minister Silvio Berlusconi and engineered his ouster when he failed to comply.

On the other hand, unlike the Federal Reserve in the United States, the ECB has not had the luxury of responding to the crisis within a fixed set of national institutions. When the financial crisis hit the United States, the Federal Reserve could immediately create trillions of dollars to steady market confidence with the knowledge that it had a federal government that could formulate a longer-term response (although it has not yet fully done so). The ECB cannot act similarly because there is no eurozone fiscal entity to which it can hand off responsibility. Moreover, to commit to a major monetary rescue would undermine the chances of a permanent political resolution to the eurozone's underlying problem: a lack of effective institutions. Were the ECB to cap governments' financing costs at no more than five percent, for instance, national politicians would probably never adopt the adjustment policies and structural reforms they need to sustain economic growth in the long run.

Saddled with administering a common currency and endowed with governing institutions flawed by early political compromises, the ECB is, not suprisingly, focused on forcing the eurozone's leaders to prioritize reforms. It is not the primary purpose of the ECB to end market anxieties and thus resolve the eurozone crisis as soon as possible. It instead aims to induce national leaders to fundamentally reform the eurozone's institutions and structurally overhaul their economies. The central bank cannot directly compel democratically elected leaders to comply with its wishes, but it can refuse to bail their countries out and thereby permit the crisis to pressure them to act.

So far, the ECB has been quite effective in its strategic bargaining with national authorities. The initial Greek crisis in May 2010 led to a deal whereby the ECB agreed to set up the Securities Markets

Program to buy European sovereign bonds in exchange for a commitment from the eurozone governments of 440 billion euros for the newly created EFSF, which proved to be an effective way of channeling resources to Greece, Ireland, and Portugal.

The EFSF, however, would simply not be large enough to rescue Italy and Spain. So in August 2011, the ECB itself bought Italian and Spanish bonds to drive down their interest costs. In return, Rome and Madrid committed to making specific reforms, such as substantial budget tightening, detailed by the ECB in secret letters to their leaders. Then, in December 2011, the ECB provided the continent's banks with huge amounts of fresh liquidity in the form of three-year loans as a quid pro quo for the eurozone's governments to agree to the new European fiscal compact, which seeks to assure budget discipline. Most recently, in June 2012, after the eurozone governments agreed to accept common banking supervision, the ECB signaled a willingness to provide targeted support for Spanish banks and subsequently reduced its benchmark interest rate.

And yet at each stage of the crisis, many pundits and even serious economists have proclaimed the end of the euro. This outlook utterly fails to recognize just how effective the type of bargaining described above has been. All the key political decision-makers in Europe—the ECB, Germany, France, Italy, Spain, and even Greece—harbor no illusions about the catastrophic costs of the common currency's collapse. Most Greek politicians and voters, as evidenced by the latest elections, know that without the euro, their country would become a vulnerable economic wasteland. German Chancellor Angela Merkel knows that were the eurozone to disintegrate, Germany's banks would also fall under the weight of their losses on loans to the periphery; the new deutsche mark would skyrocket, undermining the entire German export economy; and Germany would once again be blamed for destroying Europe. The ECB, of course, would not want to put itself out of business.

These actors are playing a game of political chicken, but in the end, they will all compromise. Once Germany and the ECB feel they have gotten the best possible deal, they will pay whatever it takes to hold the eurozone together. Neither can afford the alternative. But neither can say so in advance.

It is still possible that Greece will abandon the common currency. But this would leave the eurozone stronger, not weaker, because it would be rid of its weakest economy. The eurozone would address a Greek exit by bolstering its financial firewall and speeding the pace of integration, particularly by creating a banking union, in order to counter the resulting risks of contagion. Most important, the total chaos that would descend on Greece would prompt the other debtor countries to do whatever was necessary to avoid suffering the same fate. Europe's leaders should try to prevent a Greek exit if at all possible, and they will probably do so, but its occurrence would certainly not doom the euro.

LIVE LONG AND PROSPER

The eurozone has already taken some decisive steps to complete its economic and monetary union. It decided at the EU summit in June to implement a banking

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union, jointly supervised and regulated, with the authority to shut failed banks and to provide regionwide deposit insurance to prevent bank runs. The eurozone countries have begun to develop a partial fiscal union by sharing responsibility for modest amounts of debt and by adopting firm common rules for budget discipline. And more and more European leaders have talked about moving toward some sort of political union that would address the questions of democratic legitimacy that surround these economic reforms.

It is thus highly likely that the eurozone will emerge from the crisis having done more than just fix the flawed institutions that produced much of the current difficulties. As in the continent's past crises, national governments will move to preserve the project of integration by enlarging Europe's mandate even further.

Even the most successful financial and institutional engineering will ultimately fail, however, if the debtor countries cannot get their economies to grow again. This is a difficult task in almost all high-income countries, including the United States, due to the prolonged slowdown that inevitably follows financial crises and the subsequent need to reduce debt levels. But there must be light at the end of the tunnel if the eurozone's strategy is to succeed.

Restoring growth will require at least three major steps. First, in addition to controlling their deficits, the borrowing countries must adopt convincing structural reforms. In particular, they must increase the flexibility of their labor markets by easing firing procedures and thus encouraging hiring, by raising retirement ages as part of pension reforms, and by allowing for collective bargaining within industries or even firms instead of only on the national level. They need to open up restricted professions, especially in their service sectors. And they should boost productivity by intensifying competition, especially by helping small firms and start-ups grow rapidly. Recent studies by the Organization for Economic Cooperation and Development have demonstrated that although some structural reforms pay off only in the long term, others can bring faster growth and increased competitiveness in as little as three years. Meanwhile, the fiscal tightening that comes with budgetary austerity will lead to lower interest rates and more investment in the debtor countries, also spurring economic growth.

Second, the strong economies in the northern core of Europe, especially Germany, must stop focusing on deficit reduction for a while and generate more spending and inflation. They should buy more of Greece's and Italy's goods and services and less of their debt. For years, Germany kept its wages and domestic spending too low, creating competitiveness problems for the rest of Europe, and it now needs to help offset those results.

Finally, the eurozone needs to continue working on a continent-wide stimulus program. At the June 2012 EU summit, the EU member states agreed to boost spending by roughly one percent of the region's GDP. The pending relaxation of deficit-reduction targets in some of the debtor countries will also help them grow, as will the ECB's recent decision to cut interest rates by 0.25 percent. But the eurozone can do considerably more on all these fronts. The ECB can stimulate the economy through quantitative easing, and European countries can jointly issue so-called project bonds aimed at boosting spending on infrastructure. These bonds would simultaneously accelerate the continent's progress toward fiscal union.

As it stumbles forward, the eurozone must combine the financial engineering that is necessary to overcome the immediate crisis with a growth strategy to restore the area to economic vitality. Fortunately, the way the eurozone's leaders have responded to the current turmoil suggests that the economic self-interests of all the key countries, creditor as well as debtor, will coalesce. The markets, too, might come to understand this reality and start betting on the euro rather than against it.

After Europe adopted a common currency, it took almost ten years for the first serious economic and political crisis to hit. Now that it has arrived, Europe must use the opportunity it presents to get the continent's basic economic institutions right and complete the euro's half-built house. This process will require more treaty revisions and fixes to the eurozone's institutions. If the history of the continent's integration is any guide, however, Europe will emerge from its current turmoil not only with the euro intact but also with stronger institutions and far better economic prospects for the future.

The Next Generation of International Affairs Faculty

Interdisciplinarity is the hallmark of an international affairs degree and a reflection of the complexity of addressing problems with a global dimension. At their core, graduate programs in international affairs must train their students to have broad knowledge of the world and be able to navigate the interconnectedness of the private, public, and NGO sectors.

As you will read in the following pages, students today will face a far more complicated world than ever as they assume leadership roles in international affairs. They simply will not have the option to shy away from studying the roles of science and technology, the global economy, or the role of governments' policies to improve or hinder the environments in which we operate. Young people today are challenged to be more innovative—and to be quicker and more creative in doing so than any time before. Technological developments have allowed for increased ingenuity in solving many intractable problems plaguing the international system. I see many young professionals establishing greater numbers of grassroots programs, partnering with local communities around the world to address needs in such areas as economic development, education, and environmental sustainability. While they recognize the need to work with governments and large, multinational organizations, they also see how technology allows for the freedom and reach to experiment and network with others addressing similar issues. The following graduate programs in international affairs are poised to meet the challenges of educating the world's future leaders by building up their faculties with a new generation of scholars and scholar practitioners whose research and teaching reflects this need for ever-broader collaboration across multiple disciplines.

Leigh Morris Sloane
Association of Professional Schools of International Affairs (APSIA)

FOREIGN AFFAIRS

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A CONVERSATION WITH

Kathleen R. McNamara
Associate Professor of Government and Director of the Mortara Center for International Studies
Edmund A. Walsh School of Foreign Service
Georgetown University

Next Generation Faculty, Engaging Students in DC

Georgetown University's Edmund A. Walsh School of Foreign Service (SFS), founded in 1919, is a premier school of international affairs. Home to eight interdisciplinary master's degree programs, SFS provides a rigorous education combining theory and practice and instills the values of service.

You direct the Mortara Center for International Studies, which fosters debate and discussion on international issues among prominent scholars and practitioners. How do you approach your mission?

The Mortara Center has an important role to play in the evolution of the School of Foreign Service. What I've tried to do is make sure that Georgetown, which has always had a very strong reputation for policy orientation and for having experts who have served in the "real world," also bridges to the academic world. It really is what the future of international affairs is in an academic sense: working to have first-rate scholarship that is informed by and speaks to the real problems that we face internationally.

How do students benefit from this kind of convening?

Let's say, for example, that we're holding a seminar on the "resource curse." We will bring in World Bank policymakers as well as academic experts; students can hear from people who are on the front lines, dealing with questions of how states develop stable political and economic systems.

One of the most important things for us at SFS is ensuring that students not only consume information, but also develop themselves as creators and generators of knowledge and information. So a centerpiece of Mortara's development now is the Mortara Undergraduate Research Fellows program. This has been very much supported by Dean Carol Lancaster and we see it as a way to expand the student intellectual experience and really develop mentorship relationships with faculty.

What do you think characterizes the "next generation" of international affairs faculty?

The most successful scholars and faculty are able to develop very sophisticated academic and research expertise, but also constantly try to be in touch with and communicate with people who are actually practitioners and who are actually struggling with the issues at hand. We have people like Victor Cha, who was on the National Security Council, and Daniel Nexon, who worked in the Department of Defense. Professor Nexon's work, for example, deals with power transitions. Working in the trenches gives him a much better real-time sense of what is going on. I think that SFS has always been very well placed to do that—physically being in Washington and being very supportive of our faculty interacting with the policy world.

Location matters, then.

There's a certain edge and advantage to being located in Washington that helps me as a scholar and is also very important to the experience that the students have. I interact regularly with policymakers at the State Department, from the European Union delegation, from the embassies. We can also call on practitioners to come to our classes and speak or to serve as adjunct professors. That would simply not be possible unless we were located in Washington, DC.

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A CONVERSATION WITH

Jing HUANG
Professor
Lee Kuan Yew School of Public Policy
National University of Singapore

Power is Shifting to Asia. Are You?

The rise of China, India and more broadly Asia as a whole has fundamentally changed our world. The change has been so swift that it has outpaced the established theories to explain such phenomena. How can we explain the way in which China, under an authoritarian regime, has risen so rapidly without confrontation with the incumbent hegemon—the United States—but is instead creating deep interdependence between them? How can globalisation, which was initiated and assertively pushed by the West, have resulted in the developing East accumulating wealth while the developed West piles on debt? Further, how can market forces be managed by the visible hand for continuous delivery in the Asian countries? And also, why has the "Jasmine Revolution" not happened (yet) in China and other Asia-Pacific countries where rapid economic growth has led to an increase in demand for greater political participation? Indeed, while the dominant international relations theories—realism, (neo) institutionalism, constructivism and liberalism, all generalised from the Western experiences, struggle to answer these questions, the center of gravity in economics and geopolitics is decisively shifting to the East.

At the Lee Kuan Yew (LKY) School of Public Policy, our study on major power relations, and in particular the relationship between China and India, reveals that notwithstanding conflicting interests and geopolitical mismatches (key factors that lead to war, according to the realist school), cooperation between China and India is not only desirable but achievable, as globalisation has created growing interdependence leading to a shared stake among great powers in maintaining peace and stability in an increasingly integrated world.

Further, our research on Asia's rise has found that government intervention is not just helpful but necessary to sustain a healthy economic development. Moreover, given that virtually all the Asian nation-states were established in the struggle against either colonialism or Western intrusion, the top priority of the ruling elites in Asia is not to build up inclusive political institutions but to deliver good governance and economic growth. This is because the legitimacy of government power in Asia is still based on performance rather than procedure. Whether a government actually governs is a critical element in nation-state building in Asia. Finally, our study on regional institutions such as ASEAN, APEC and East Asia Summits shows that pragmatism under principally accepted norms, rather than abiding rules as suggested by the theory of institutionalism, is the key to their success.

Strategically located at the heart of Asia-Pacific, the National University of Singapore's LKY School has gathered top-notch faculty from twenty-odd countries and over 350 students from more than 50 countries to study the on-going transformation of Asia and indeed the world. The research and education carried out at the LKY School reflects our conviction that the next generation of global leaders will operate in a world radically different from that of the late twentieth and early twenty-first centuries. The aim therefore at the LKY School is to enrich and expand the worldviews and professional networks of our students, so that they can provide better leadership to their societies in managing the major global trends.

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A CONVERSATION WITH

Bruce W. Jentleson
Professor of Public Policy and Political Science
Sanford School of Public Policy
Duke University

Developing a Global Mindset in an Era of Collaboration, Interdisciplinarity and Change

What challenges will graduates face as they move into prominent global policy roles in the United States and around the world?

Three stand out. *The need for interdisciplinarity:* The age of siloed knowledge is over. Few if any of today's policy challenges sit squarely within one discipline or policy area. Multiple knowledge bases, diverse skill sets, and highly collaborative dispositions are key. *Adaptability:* Interconnectivity, fast-paced information flows, and frequent outside-the-box developments mean that neat models are less helpful than being open to expecting the unexpected. *Global Perspective:* Especially for Americans, it's essential to get beyond parochialism and thinking that the best ideas are always made in the USA. We have as much, if not more, to learn from others about effective policy as they do from us.

What unique programs does the Sanford School offer to prepare students for this environment?

The Sanford School offers numerous channels for developing the collaborative mindset so essential to success in the global arena. Our programs include a Master's in Public Policy with the options of Global Policy or Security Studies concentrations; a Master's in International Development Policy for mid-career professionals from over twenty-five nations; executive education programs for policy practitioners from China and many other countries; and a PhD program.

Students regularly share classes and break bread across program and national lines. They also cross unit lines with joint degree programs with Duke's Law School, Fuqua School of Business, Nicholas School of the Environment, and Global Health Institute. Internationally, we offer programs on Global Policy & Governance and Global Health in the center of international policy—Geneva, Switzerland—as well as new programs in India and China and internship opportunities on every continent. Our program and research centers include those focusing on media and democracy, philanthropy, leadership, and social policy, and all of them combine international and domestic perspectives.

What makes your faculty distinctive?

Terry Sanford, who had such a distinguished career as North Carolina Governor and Senator, founded our school while Duke University President with a commitment to blending the scholarly and the experiential. Our faculty has grown and developed in that tradition. We are highly interdisciplinary—representing no less than twenty academic disciplines—and also have distinguished practitioners from government, political consulting, diplomacy, journalism, international development, and public health.

In my own career I have served in a number of policy positions, including in the State Department in the Clinton and Obama administrations, and remain engaged with foreign policy colleagues in Washington, D.C. My colleagues have been top officials in the Defense Department, Treasury Department, the White House Council of Economic Advisers, Congress, the World Bank, and India's Administrative Service, as well as at international NGOs and major foundations. Our insightful research and wealth of practical experience help our students grow intellectually and gain practical skills in negotiation, group project management, and other staples of professional life.

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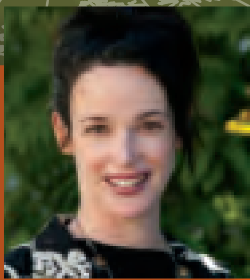

A CONVERSATION WITH

Emilie Hafner-Burton
Associate Professor and Co-Director of the
Laboratory on International Law and Regulation
School of International Relations and Pacific Studies
University of California, San Diego

Glimpsing the Future: *Will the Private Sector Shape Public International Law?*

What are the biggest challenges your students face as they move into positions of leadership?

Public policy training, at its best, recognizes that there isn't a sharp line between government and the rest of the society and economy. The best public leaders must know a lot about business, and for most firms a smart engagement with the public sector is essential to good business strategy. That's why we at UCSD teach public policy alongside management. One of the biggest challenges for today's leaders is to find the right balance.

Another big challenge, especially for the current generation, is hard economic times. When the world economy is expanding, it's relatively easy to get people and governments to embrace global goals, such as expanding world trade, protecting human rights, or slowing global warming. Hard times cause countries to look inward—at their own problems and own partisan debates. This is a huge challenge for today's graduates on the job market: How can they steer international policies and business strategies [when the focus has shifted to domestic issues]?

What's your teaching style?

I co-teach several classes with David Victor, and we are both very practical instructors. Students preparing for careers in public policy and management must learn how to connect theory with real-world experiences. That's why our style is to expose students to leading theories alongside case studies. We force students to build skills—as presenters, debaters, and writers—that allow them to find the main strengths and weaknesses of theories while quickly dissecting the essence of each case. There aren't any theories in the social sciences that work in every setting, and one of the most important skills we can teach is the ability to translate insights from the Ivory Tower to real-world settings that our students will face once they leave school.

What are the newest frontiers in research, and how do students benefit?

David Victor and I run the Laboratory on International Law and Regulation. Like labs in the physical and biological sciences, the lab concept applied to the social sciences pools together lots of researchers working on overlapping topics. The idea is to build much more effective research teams by working together at scale; we employ dozens of students and also fund internships.

We're working on two big challenges. One is to take the insights from psychology and behavioral economics and apply them to decision-making in international affairs, such as the design of treaties. The other is to better understand how private firms affect international politics. Social scientists today know a lot about nongovernmental organizations, which is great, but we know surprisingly little about how the private sector actually shapes public international law. We at the lab also work at the forefront of two of the biggest challenges ahead: global warming and protecting human rights.

Dr. Emilie Hafner-Burton Burton is the recipient of the Karl Deutsch Award, presented annually to a scholar under age forty who is judged to have made the most significant contribution to the study of International Relations and Peace Research. This interview was conducted by Sonja Steinbrech, Director of Enrollment at IR/PS.

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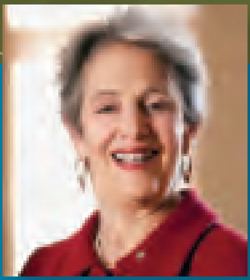
A CONVERSATION WITH

Janice Stein
Director
Munk School of Global Affairs



The MGA Advantage: Real-world Experience and the Latest Thinking on Global Affairs

How does the Master of Global Affairs (MGA) position students for careers on a global stage?

Professionals, industry leaders, employers, and students see what we see—that the world has changed. To become leaders today—global problem-solvers—students must move beyond the boundaries of academic disciplines. They require a deep understanding of the broader architecture and forces that shape the global system. The Munk School has created an environment that equips students to thrive in a world where working globally demands professional skills, strategic agility, and cultural fluency. This is what the Master of Global Affairs degree offers—a background combining analytical methods and leadership skills with an immersion in the latest thinking on global issues.

Can you guarantee relevant professional development for students in such a competitive field?

Absolutely. Our approach to professional development grounds itself in real-world experience. Similar Master's programs in this field depend, in my opinion, too heavily on their faculty's background in the field—the real competitive advantage is getting a student *genuine* professional experience before they graduate.

The Master of Global Affairs provides this experience by having students complete a mandatory internship before their second year of study. Our partnerships and connections have created a ground-breaking program in this regard—including recent internship placements at the World Bank, NATO, Bombardier, the WTO, Shanghai Institute, Pan America Health Organisation, WHO, State Bank of Pakistan, and Global Financial Integrity.

MGA internships bring our students two keys necessary for success—authentic connections and experience with institutions they're interested in working with after graduation—and a new perspective on the challenges, organizations, and ideas that are shaping the global landscape.

It sounds as though the professional core of the program is deeply entwined with its academic core. Does an MGA degree reflect a new perspective on international studies?

Economic and geopolitical realignment, as well as rapid changes in technology and media, have eroded core assumptions and orthodoxies in this field. Existing academic programs specializing in international relations, public policy, and business do not provide the integrative and practical approaches required to succeed. Our program thrives on bringing scholars and practitioners together to ensure our students' thinking is informed by rigorous theoretical work as well as real-time, real-world experience.

The MGA is built on three pillars: global economy and markets, global institutions, and global civil society. Before students leave for their internships, they are grounded in coursework covering these themes with immersion in policy analysis, global security, international economics, development, and international law. After their internships, they are exposed to a range of electives that cover everything from international negotiation to the geopolitics of cyberspace. All of this is complemented by workshops, speaker events, and professional development sessions taught by leading practitioners and academics in the field. We go further by offering joint degrees that combine the Master of Global Affairs with degrees from the Rotman School of Management, the Law School, and a joint Master's degree we are developing with the Faculty of Engineering. Our integrative approach ensures graduates are armed with the tools, experience, and strategic agility necessary to thrive and succeed as global problem-solvers.

MUNK SCHOOL OF GLOBAL AFFAIRS
UNIVERSITY OF TORONTO

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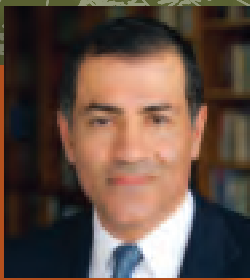


A CONVERSATION WITH

Vali R. Nasr
Dean
Professor of International Relations
The Johns Hopkins University Paul H. Nitze School of Advanced International Studies (SAIS)

A Global Presence, an International Outlook

SAIS is a global institution that offers students a truly international perspective on today's critical issues. A presence on three continents—in the cities of Washington, D.C., Bologna, Italy, and Nanjing, China—sets SAIS apart and is one of the school's greatest strengths. We not only teach about the world, we are in the world.

Our graduates are recognized for their interdisciplinary breadth and solid foundation in economics—prerequisites for a successful career in international relations.

SAIS's academic mission straddles the boundaries of intellectual discourse and professional performance. A SAIS education is the bridge that connects knowledge at a theoretical level in economics, foreign policy and regional studies to the practical work of policymakers and practitioners.

As someone with extensive experience in both academia and policymaking, you have said this is an important and turbulent time in global affairs. What will be the impact on international relations education, and how are SAIS faculty preparing students for changing conditions?

Tomorrow's leaders will contend with an increasingly complex and interrelated world in which economic opportunities and challenges combine with major shifts in the distribution of power between traditional centers of influence and emerging ones. In addition, nations will experience crises caused by conflict, population movements, scarce resources and climate change. Solving these problems requires not only a deep knowledge of diverse subjects and regions of the world, but also the ability to analyze and innovate. Our educators today must prepare the next generation of leaders to confront these realities—and make a positive difference in the world.

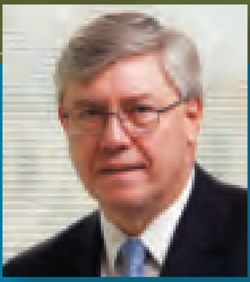
In order to inspire, inform and influence future graduates, SAIS is expanding its world-class faculty with professors of exceptional potential. Could you describe that strategy?

To reflect the changing global environment, SAIS is continuously enhancing its curriculum. As part of that effort, we are recruiting a cohort of young scholars who work on new approaches to resolving global issues. SAIS will provide a platform for their research in order to find policy applications while exposing our students to the latest debates and intellectual trends.

In your new position as SAIS dean, what is your vision for the school—and its leadership role in the international relations arena?

SAIS has been one of the premier international relations schools for several generations. We have trained our 16,000 graduates in economics and politics, international development and government. The school is also recognized as a thought leader in identifying questions of importance to the global community and determining how educational institutions address them. My vision for SAIS is to continue this leadership role: defining the gold standard in international relations education and producing the very best of tomorrow's world leaders.

A CONVERSATION WITH



Ambassador John Menzies

Dean
John C. Whitehead School of Diplomacy and International Relations
Seton Hall University

Speaking on the work of Associate Professors Dr. Martin Edwards and Dr. Yanzhong Huang

Facing Future Challenges of International Organizations and Global Health

What are the most important challenges currently facing your field?

With emerging markets such as Brazil and India vying for a UN Security Council seat and rapidly growing countries such as China seeking a larger voice at the IMF and World Bank, the main challenge for international organizations is finding a way to reform governance that balances the status quo powers with rising countries. In addition, global health challenges are becoming a major foreign policy and security concern, with profound changes in the biological and political worlds leading to new problems, players, and processes.

How will these challenges distinguish the work of your students during their careers?

Post-conflict countries need reform in many areas including economics, human rights, and security. Many international organizations are working on the ground to solve these problems, but neglecting the connections between these areas can do more harm than good. The new generation of policy makers will recognize the connections between addressing armed conflict, ensuring economic development, and fostering political stability. With regard to health, due to globalization, a disease outbreak in a small village can immediately impact other parts of the world. Future leaders will learn to go beyond formal relationships among sovereign states to conduct a new type of diplomacy in coping with the complex matrix of technical and relational challenges of global health.

What does the Whitehead School have to offer students facing these challenges?

The School offers a niche specialization in Post-Conflict State Reconstruction and Sustainability. Through the School's relationships and proximity to New York City, the UN, and Washington, DC; a dedicated office of internships and career development; and a required internship course, our students secure prestigious professional internships tailored to their interests to learn practical career skills. We also provide students close collaboration with faculty and personal attention. Dr. Edwards, who is chair of the international organizations specialization at the School, has recently coauthored papers with undergraduate and graduate students on the surveillance functions of international organizations. The Whitehead School also offers the first academic concentration in the U.S. that explicitly addresses the security and foreign policy implications of global health issues. Dr. Huang, director of the School's Center for Global Health Studies, is integral to the current worldwide debate on global health governance and engages our students in research and policy work. The School's Center for Global Health Studies is a member of the Consortium for Global Health Diplomacy and publishes the acclaimed online journal *Global Health Governance*.

What distinguishes a Whitehead School student?

Our students come to the program with a vision of what they want to do after graduation, be it working at the UN, with an NGO, or as a public servant. They are driven by causes and want to make the world a better place. Our students know how to position themselves to succeed, winning national fellowships for travel and research abroad. Choosing a professional school, our students are interested in obtaining the skills and expertise that help them succeed in the rapidly changing world. They take advantage of the School's multiple professional, internship, travel, and volunteer opportunities, and become competent in several languages.

JOHN C. WHITEHEAD SCHOOL OF DIPLOMACY AND INTERNATIONAL RELATIONS

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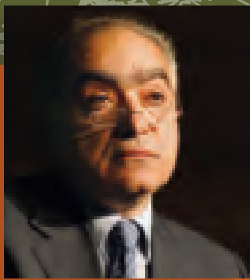

A CONVERSATION WITH

Ghassan Salamé

Dean of the Paris School of International Affairs,
Former Special Advisor to the United Nations Secretary-General,
and Former Lebanese Minister of Culture

Study to know, know to understand, understand to act.
The Paris School of International Affairs (PSIA), Sciences Po.
A world-class school of international affairs in Paris.

PSIA is based in Paris, but the only required language is English. What was the rationale?

Paris is a global capital and English has become the lingua franca of international affairs. This is not a contradiction, it is an asset. I could sense that young, inquiring minds across continents understood that studying international affairs in Paris, in addition to the opportunity to learn French, would provide them with a major competitive advantage in their career. Seventy percent of our faculty teaches in English, and subsequently, PSIA has attracted an enormously diverse student body (70 percent international) and faculty.

What is distinct about PSIA's faculty?

PSIA is a place where theory truly meets practice, essential for a leading professional school of international affairs. We rely on Sciences Po's world-renowned faculty while at the same time attract leading practitioners to join our faculty. Practitioners make up 50 percent of the teaching staff, and most are high-level international leaders in their fields of expertise. In the classroom, you will find diplomats, military figures, development specialists, leaders in the energy sector, writers, directors of international organizations, entrepreneurs, mediators, founders of NGOs, economists, and regional experts. Therefore, I feel PSIA meets two of the most important benchmarks for schools like ours: ensuring the excellence of our intellectual offering and maintaining faculty diversity.

Any examples of who will join your faculty in the upcoming academic year?

In the upcoming academic year, 300 faculty members will once again join us. Among them, without hurting anybody, I can mention Amita Baviskar (Institute of Economic Growth, Delhi), Lakhdar Brahimi (*Former Special Advisor to the UN Secretary-General, Special Representative of the Secretary-General for Afghanistan*), Paul Collier (*Professor of Economics and Director of the Centre for the Study of African Economies at Oxford University*), Jean-David Levitte (*Former Diplomatic Advisor to President Sarkozy*), Aryeh Neier (*Former Executive Director of Human Rights Watch, President of the Open Society Foundations*), Larry Pressler (*Former U.S. Senator*), and David Rieff (*journalist and author*).

From your perspective as a diplomat and academic, what are you most proud of at PSIA?

PSIA has truly become an intercultural magnet for the best and brightest minds in international affairs by bringing them together in the classroom as students, practitioners, scholars, and world leaders. In my experience, the rise of vibrant and committed communities is a guarantee of progress.

Along with our professors, I have the utmost confidence that our students, past, present, and future, will be the next to join the ranks of the CEOs, presidents, ministers, entrepreneurs, activists, and professors—and of course, leaders of international organizations—that are currently within our classrooms in Paris.

As mentioned by Alvaro de Soto, a fellow PSIA faculty member, renowned international mediator, and former UN Under-Secretary-General, "Seen through the prism of my students these past two years, widely diverse both geographically and in the level and character of their social and educational backgrounds, PSIA is making a distinctive mark as a cutting-edge crucible of global citizenship."

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A CONVERSATION WITH

Stephen Walt

Robert and Renée Belfer Professor of International Affairs
Harvard Kennedy School

Harvard Kennedy School Faculty Emphasize the G in International Affairs: International & GLOBAL Affairs

What are the biggest challenges the millennial generation will face as they move into positions of leadership in the international affairs arena?

The millennial generation will need to understand complex policy environments and how to operate effectively within them. World politics today isn't just what national leaders do; it's a more complicated interplay between governments, institutions, markets, media, NGOs, technology, and the natural environment.

How does Harvard Kennedy School help prepare students for those challenges?

We've created a new concentration in International and Global Affairs (IGA) to help our students make sense of this increasingly complex world, and we continue to revise our course offerings to reflect an ever-changing agenda of global problems.

We want students to gain a sophisticated understanding of the key forces driving international and global affairs, and to know how to solve difficult policy problems in rigorous, realistic, and creative ways.

At the same time, we believe analytical training needs to be combined with the practical skills that are the key to real-world success. That means learning to write clearly and persuasively, to speak with confidence and authority, and to work effectively as part of a team.

Each year, we attract an extraordinary pool of students from across the globe. They are exceptionally smart, independent, diverse, and have considerable real-world experience. Over 40 percent of our students are international, allowing students to get exposed to different viewpoints and to build extensive professional contacts.

How does your school provide its faculty members with the facilities and programs to best accomplish these objectives?

Not only do HKS faculty get to teach exceptional students, but we also get to collaborate with colleagues whose academic excellence and real-world experience are unmatched. Three current IGA faculty members were ranked among the "twenty most influential scholars" in a recent survey of the field. Our faculty also features accomplished practitioners such as former Undersecretary of State Nicholas Burns and NSC staffer Meghan O'Sullivan.

HKS faculty often teach together, but we also collaborate through the School's research and policy centers, such as the Belfer Center for Science and International Affairs (the top-ranked "university-based" think tank in the world, according to the *2011 Global Think Tank Index*) and the Carr Center for Human Rights Policy. HKS has a long tradition of combining research and teaching, and our work has had a lasting impact on the field.

Finally, the Kennedy School is Harvard's window to the world. Prominent policymakers, journalists, and academic experts visit every week, allowing our students to get "up close and personal" with the leaders whose shoes they are going to fill. Our overarching goal is to create an environment where students, faculty, and visitors all learn from each other, every day.

What direction do you see the teaching of international affairs going at Harvard Kennedy School?

Graduate education is changing rapidly, and we are constantly on the lookout for even better ways to prepare our students. In addition to formal class sessions, we increasingly emphasize experiential learning, group projects, summer fieldwork, and internships everywhere from Addis Ababa to Ulan Bator.

HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

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A CONVERSATION WITH

Lisa Lynch
Dean and Maurice B. Hexter Professor of Social and Economic Policy
The Heller School for Social Policy and Management
Brandeis University

Learning Across Borders

The Heller School's Sustainable International Development and Coexistence and Conflict programs are based on innovative and flexible interdisciplinary curricula that draw from scholarly research in economics, political science, history, philosophy, sociology, and anthropology. The focus of our programs is the application of this knowledge to the real-world problems of those most vulnerable and displaced in our society. This includes those who struggle with poverty, inequality, social exclusion, war and conflict, environmental degradation, human rights violations, and preventable diseases. Learning across borders is achieved by the composition of the Heller student body, a faculty of renowned scholars who are seasoned international development practitioners, and a significant field practicum experience within host organizations throughout the world. Heller is truly a global community embracing and celebrating the world's cultures and religions and learning from each other.

Heller has students from over 60 countries, with two-thirds from developing countries. What kinds of backgrounds do these students have?

More than half of our students are from countries outside the U.S., and many of our domestic students have spent considerable time abroad. Examples include a leading human rights advocate from Liberia, an engineer linking biodiversity conservation with energy access in India, an organizer of a nongovernmental organization in Togo educating youth in nonviolent protest, a community development officer for the UN Relief and Works Agency for Palestinian Refugees in Gaza, and an HIV/AIDS program officer from Oxfam Hong Kong.

There has been plenty of debate about the value of a higher education degree. What is it about Heller that makes it a worthwhile investment?

If you're going back to graduate school as an experienced professional, you don't want to be jammed into somebody else's cookie-cutter notion of what courses you're supposed to be taking. The ability of Heller to provide flexibility is a large part of our value proposition. The fact that students in our Sustainable International Development program can take management classes in our MBA program, health courses in our International Health Policy and Management program, negotiations and conflict resolution in our Coexistence and Conflict program, and classes and workshops in women's and gender studies provides a wealth of options and access to an extraordinarily rich and diverse learning community.

For someone interested in studying international relations today, why go to a school of social policy like Heller?

This question is best answered by Heller's 2012 commencement speaker, economist and Nobel Prize winner Amartya Sen. At a time when the world has been in a deep recession and the needs of the destitute have expanded, Professor Sen argued that the preparation a student receives at a school such as Heller will be critically important. In his words, "The world needs social policy and social engagement for combating social exclusion and economic and social inequality and disparities of various kinds. Human societies have always flourished through people helping each other. It is in social engagement and policy that we come closest to the philosophy of mutual help and support." He concluded that in this time of global needs we need graduates focused on action and committed to social justice.

A CONVERSATION WITH

Markus Kornprobst, PhD
Professor and Chair of International Relations
Vienna School of International Studies
Diplomatic Academy of Vienna

Interdisciplinarity and a Four-Pillar Approach to International Affairs

Teaching and research at the Diplomatic Academy of Vienna (DA), the Vienna School of International Studies, are shaped by an interdisciplinary approach to embracing the complex elements of international affairs. The Master of Advanced International Studies Program with its multidisciplinary pillars (international relations, international economics, international and European law, and history), reflects this approach in teaching as well as in research, uniting excellent students from all over the world with first degrees in different disciplines in their pursuit of careers in international affairs.

A great number of DA students—no matter what discipline they had chosen for their first degree[1]—decide to write their inter-disciplinary master thesis on a topic related to political science. Why is that so, will this trend continue, and how do you judge the developments in your field?

Political science is an inter-discipline. It borrows a lot from other disciplines, such as economics, history, and law, which we also offer here at the DA. The thesis—this is a key requirement—has to be inter-disciplinary, and political science makes this inter-disciplinarity very easy, even almost natural, to achieve. I have to say that knowledge in four disciplines greatly adds to the research papers and theses written by our students. The papers produced by our students compare favorably with the major universities in North America and the United Kingdom, where I taught before I came here.

Almost two-thirds of DA's graduates work in international organizations, the institutions of the European Union, or as public servants/diplomats for their countries. What do you see as the greatest challenge for these future leaders?

First of all, I really should emphasize that this placement record is excellent. I am always very proud when I go to the International Centre here in Vienna, where the United Nations is located, and meet many former students. DA students enjoy a high reputation there. The challenges for future leaders are manifold. Political problems go increasingly global. Challenges in the security and economic fields persist. But there are many other fields—just think of environment and health, for example—that are very important for the future as well.

How do you prepare the students for these challenges and how does the DA support you in your efforts?

We attempt to train young people to look at these challenges through different lenses (the four disciplines we teach), and thus enable them to be innovative in order to meet them. Teaching excellence is important for us. Our internationally recognized resident and non-resident faculty tend to teach in small classes, read student drafts (for instance of master's theses), and consider themselves mentors. We also believe that excellent research feeds into excellent teaching. Thus, our faculty publishes with the best publishing houses and top-tier journals.

diplomatische akademie wien

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1 Political Science/International Relations (32%), Law (16%), Economics (14%), Languages (13%), History (7%), other (18%).

A CONVERSATION WITH

Dr. William Potter

Sam Nunn and Richard Lugar Professor of Nonproliferation Studies and Founding Director of the James Martin Center for Nonproliferation Studies
Monterey Institute of International Studies

When it Comes to Nonproliferation, One School Rules.

The Monterey Institute of International Studies, a graduate school of Middlebury College, provides international professional education in areas of critical importance to a rapidly changing global community, including nonproliferation and terrorism studies. The James Martin Center for Nonproliferation Studies, with offices in Monterey, CA, Washington, D.C., and Vienna, Austria; is the largest non-governmental organization dedicated to nonproliferation education. Through this center, faculty and researchers train students in the MA in Nonproliferation and Terrorism Studies program in analyzing, preventing, and responding to terrorist threats and the spread of weapons of mass destruction.

What is unique about the Monterey Institute's MA Degree in Nonproliferation and Terrorism Studies?

In 2010 the Monterey Institute launched the world's first graduate degree designed to provide students with the knowledge and skills needed to prevent the spread of weapons of mass destruction (WMD) and to respond effectively to terrorism. The curriculum includes an integrated program of courses, seminars, workshops and simulations taught by an international faculty with backgrounds in science, diplomacy, and policy-making. Students have the opportunity to acquire paid on-the-job training at the James Martin Center for Nonproliferation Studies (CNS) and the Monterey Terrorism Research and Education Program (MONTREP). The degree also offers opportunities for internships at the International Atomic Energy Agency, the Comprehensive Test Ban Treaty Organization, the United Nations Office of Disarmament Affairs, and other international organizations, as well as U.S. governmental agencies.

What are the kinds of courses will students take as part of their program?

This interdisciplinary program of study combines traditional coursework in the policy sciences with seminars and technical workshops dealing with regional security issues, terrorist motivations, WMD science and technology issues, and research utilizing primary sources and new analytical tools such as geospatial imaging. Faculty members have pioneered the use of simulation pedagogy, and students participate in very realistic, semester-long treaty negotiation simulations, alongside professional diplomats. Last fall, two dozen students assumed the roles of delegates to the 2012 Non-Proliferation Treaty (NPT) Preparatory Committee Meeting and negotiated a final document. Based on their classroom experience, four of the students from the class subsequently had the opportunity to participate as delegates to the "real world" NPT meeting, which met in Vienna for two weeks in April-May 2012. Our students also take advantage of immersive content-based language study at different international venues. In March 2012, ten MIIS students spent a week in Beijing discussing nonproliferation issues—in Chinese—with senior Chinese diplomats, military officials, and scholars.

What kind of jobs can your graduates expect to obtain?

A very large number of MIIS alumni—literally hundreds—now work on nonproliferation and terrorism issues in the U.S. and other national governments, international organizations, and research centers around the world. Perhaps the best known CNS alumnus is Ambassador Yukiya Amano, the current Director General of the International Atomic Energy Agency. This growing cadre of professionals is a tangible result of the Monterey Institute's commitment to educate the next generation of nonproliferation and terrorism specialists, who are equipped with policy-relevant knowledge, technical skills, and foreign language proficiency. So widespread is their influence that in Washington, Tokyo, Vienna, Beijing, and many other capitals they are affectionately known as the "Monterey Mafia."

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A CONVERSATION WITH

Michael Cohen

Director of the Graduate Program in International Affairs
The Milano School of International Affairs, Management, and Urban Policy
The New School for Public Engagement

Shaping the Global Urban Future

What was the impetus behind the development of The Milano School's new specialization in Global Urban Futures?

For the first time in history, most of the world's inhabitants live in cities. Urban centers are where change is happening: in the economy, finance, technology, culture, and the environment. It's crucial for policymakers, citizens, and communities to understand how these rapid and unprecedented transformations are linked together and how they can be shaped and managed to improve the welfare of communities, cities, and nations.

I have worked in cities in fifty-five countries myself, and what I'm hearing from our students about their work in Buenos Aires, Rio de Janeiro, Hong Kong, Kampala, and Cape Town is what I've also found: that urban issues are more pressing and increasingly complicated to address. Effective solutions require multi-disciplinary approaches.

What's your elevator pitch for this new area of specialization?

I'd say that we're preparing practitioners to read cities and to participate in the design and leadership of the urban future. If it's a longer elevator ride, I'd add that our students analyze how global factors interact with local environments, actors, and institutions to produce new urban forms, policies, behaviors, problems, and opportunities. They need to be able to use rigorous methods to interpret patterns of change.

Is this a new approach to tackling complex global issues?

This is one of the first graduate academic specializations that brings together the urban experience of the United States with that of the rest of the world, combining theory and practice with fieldwork in New York and other American cities as well as cities in developing countries.

Milano is training practitioners to strengthen their understanding of possibilities for innovative change—and we know that we'll come up with better solutions if we work in teams of people with different backgrounds and perspectives. We are already doing so in our Design and Development Program together with Chulalongkorn University in Bangkok and the University of Buenos Aires.

What different disciplines are involved?

We draw on the unique strengths of more than twenty full-time faculty members from economics, urban planning, urban studies, public finance, political science, anthropology, sociology, architecture, urban history, environmental sciences, and community development. We're looking at the big picture, so that means urbanization in relation to globalization, climate change, the global and national economies, and media, technology, and culture. The Milano School of International Affairs, Management, and Urban Policy is part of The New School, one of the few universities in the world where there is an active conversation and debate going on between design, the social sciences, and history. Along with the Graduate Program in International Affairs, Milano offers graduate programs in Environmental Policy and Sustainability Management, Leadership and Change, Nonprofit Management, Organizational Change Management, Organizational Development, and Sustainability Strategies.

What career paths are open to your graduates?

Milano graduates work in government, nongovernmental organizations, and in the private sector. They are on the cutting edge of creative practice, evaluating projects in cities, working with technology to democratize information about cities, and helping to motivate greater public engagement.

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Germany's Unsustainable Growth

Austerity Now, Stagnation Later

Adam Tooze

With the euro in crisis, Germany has come to seem like a lone island of fiscal stability in Europe. Its debt levels are modest, its government bonds are safe havens for investors around the world, and it has avoided the kinds of private credit booms and housing bubbles that have destabilized the rest of the continent. The German economy, fueled by record exports, has grown steadily, expanding by a quarter over the last decade.

But beneath the glowing headlines lies a darker story: Germany's economic position is simply unsustainable. For starters, much of its trade surplus has been earned at the expense of the corresponding current account deficits of the European countries in crisis. At the same time, this outsized surplus goes hand in hand with major imbalances within Germany's domestic economy. German businesses have invested their profits abroad, helping finance foreign imports. Meanwhile, as German money has flowed out of the country, domestic investment has languished at unprecedentedly low levels.

Germany, like other rich, polluting, and aging countries, faces enormous long-term challenges. Its work force is shrinking, its energy sector needs to be remade, and its public infrastructure has gone too long without improvement. For all the talk of its financial strength, Germany has so far squandered the opportunity to secure long-term economic growth by addressing these challenges through badly needed domestic investments.

The financial conditions for such spending have never been more favorable: interest rates for public borrowing are approaching zero. And yet due to a 2009 constitutional amendment requiring both the federal and the state governments to maintain balanced budgets, the German public sector has denied itself the opportunity to borrow and invest. To make matters worse, rather than try to extricate itself from this self-inflicted trap, Berlin is insisting that the eurozone as a whole adopt this model, in the form of the European fiscal compact, a treaty that will mandate balanced budgets across the continent.

Adam Tooze is Professor of History, a Fellow at the MacMillan Center for International and Area Studies, and Co-Director of International Security Studies at Yale University.

That Germany is seeking to fashion the rest of Europe in its own image makes it all the more urgent to understand the fault lines that underlie its economic model.

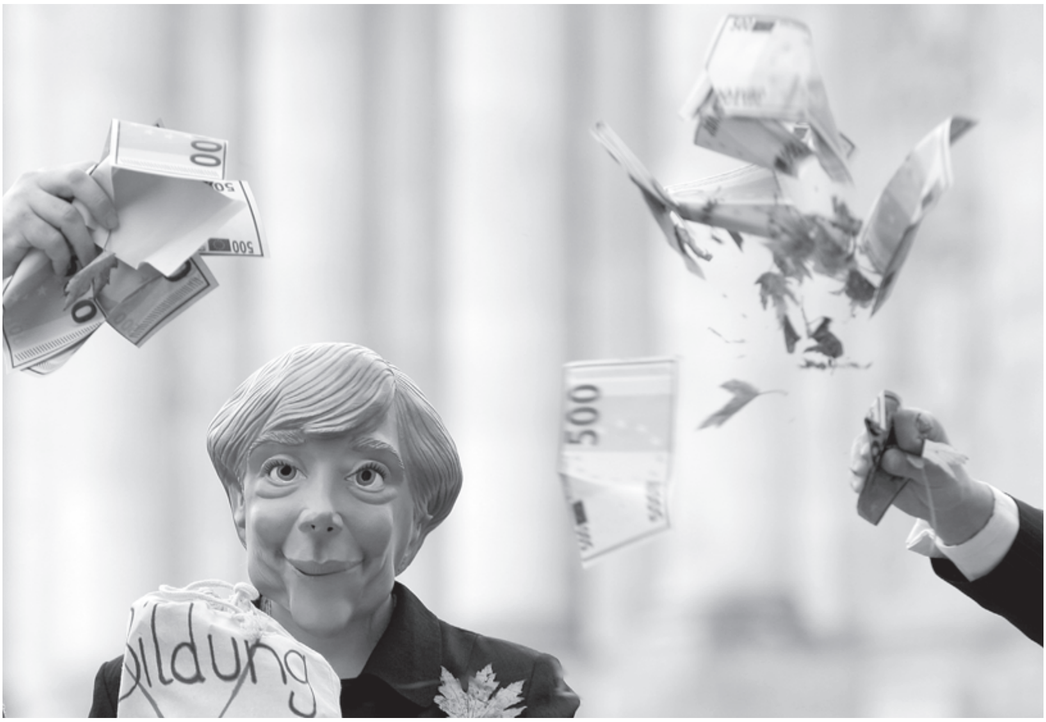
AUSTERITY STARTS AT HOME

Germans are tempted to see the huge trade surplus they have enjoyed since 2000 as a return to the glory days following World War II, when West Germany rose from the rubble and "Made in Germany" first became a byword for quality. But the historical analogy is flawed. It is true that in the 1950s and 1960s, Germany sustained current account surpluses, which meant, as today, that the country was exporting capital. But in the postwar decades, the drive for domestic investment was huge. German household savings and public budget surpluses were large enough to sustain both a current account surplus and a roaring domestic reconstruction. These days, by contrast, the country is investing abroad rather than at home. In this sense, today's surplus is not a vindication of the tried-and-true postwar German growth model but a sign of its decomposition.

Since the millennium, net investment in Germany as a share of GDP has been lower than at any time in recorded history, outside the disastrous years of the Great Depression. The German corporate sector has invested its more than ample profits, but it has done so outside the country. The effect of this flight of private money has been compounded by Berlin's campaign to enforce balanced budgets, which has prevented meaningful investment on the part of the public sector.

For years, the depreciation in the value of Germany's public assets has outstripped new investment. In 2011, in towns and regions across the country, 100 billion euros' worth of needed public investment was backed up. Although Germany often flaunts its environmentalist credentials, the country's investment in a "green" stimulus from 2009 to 2012 was dwarfed by those of the United States and South Korea, not to mention that of China. Even though the German population is rapidly aging, the government has underinvested in human capital. According to Germany's most recent national report on education, its spending on primary and secondary education remains below the average for Organization for Economic Cooperation and Development (OECD) countries. German universities, which were the great intellectual powerhouses of the nineteenth and early twentieth centuries, now languish in mediocre places in international rankings. The 2011 Academic Ranking of World Universities, compiled by Shanghai Jiao Tong University, placed only six German universities in the top 100, with the highest-ranked German university 47th on the list. Over the last decade, as capital poured out of the country at rates of six to eight percent annually, Germany loaned far more to foreigners to buy German goods than it spent on the education of its own children. In short, Berlin may have secured a dominant place in Europe, but it has not made adequate provisions for the future.

Fortunately, although Berlin remains largely reluctant to consider the downsides of its export-driven growth strategy, German politicians, business leaders, and voters are starting to realize that the country's low level of domestic investment is a problem. Chancellor Angela Merkel and her government are often criticized for being too conservative and small-minded, but in recent years, they have



REUTERS / JOHANNES EISELE

Show me the money: wearing an Angela Merkel mask at an anti-bailout protest, Berlin, October 2008

come to understand that they must direct investment toward addressing Germany's looming demographic shift and toward making the country a world leader in clean energy. Even in the face of the euro crisis and domestic political squabbles, these long-term imperatives continue to preoccupy the German government. Berlin has developed elaborate blueprints for national programs of investment in child care and energy, the costs of which will add up to hundreds of billions of euros.

These plans seem to be precisely the kind of stimulus that Merkel's critics have been calling for. But because her government is constitutionally barred from increasing the public debt, she has no clear way to make them a reality. Her administration discusses the investment plans in vague generalities, without specifying exactly who will pay for them. With borrowing off the table, Berlin must be hoping either that the money will come from relentless cuts in public-sector spending or that a massive revival of private investment will address the country's needs. The first possibility—that Germany will fund the investments by reallocating public-sector resources—would entail unnecessary pain. The second option—renewed private-sector investment—seems like wishful thinking given the lackluster corporate investment of the last decade and the prospect of far greater economic and political turbulence ahead. Unfortunately, then, Germany looks as if it will continue down an unsustainable path.

SENSIBLE PRIORITIES

Investment is needed, first, to prevent the German work force from being hollowed out. Germany's birthrate is low—in 2009, only three other countries in the OECD had fewer babies per woman—so its population is shrinking and rapidly aging, leaving a smaller work force and a diminished tax base. This demographic shift will disrupt the balance between net contributors and net recipients within the country's pay-as-you-go social insurance system, an intergenerational bargain that dates back to the 1950s.

One potential fix would be increased immigration, and Berlin has stepped up its efforts to recruit foreign workers. But the large-scale guest-worker programs of the 1960s and early 1970s, which brought immigrants in droves from Turkey and Europe's Mediterranean periphery, carry a mixed legacy. Already, 35 percent of new children in Germany are born to immigrants, placing strains on an educational system that still has no coherent strategy for teaching German as a second language, let alone maximizing the potential of all students. Despite considerable attempts to integrate these immigrants, Germany remains uneasy about multiculturalism.

Another way to bolster the German work force would be to enact child-care policies that would make it easier for women to raise children while pursuing careers. A major obstacle to such policies has been the conservative political culture of the Christian Democratic Union (CDU), Germany's dominant political party for much of the last 60 years, which tends to disapprove of mothers working outside the home. The incorporation of formerly communist East Germany in 1990 helped cause these attitudes to shift, as it introduced to the country the experience of a radically different model of state-financed child care. Despite persisting and fierce resistance from the conservative wing of her party, Merkel has sought to continue to bring mothers into the work force by building a comprehensive, high-quality child-care system that will cover all children up to the age of six. Between 2006 and 2011, Germany created 230,000 new places for preschool students, and local governments now face the challenge of creating a further 260,000 places by 2013. The bill for this project will come to billions of euros.

Even more imposing a challenge is Merkel's proposal for an *Energiewende*, or energy transformation. Following Japan's Fukushima nuclear disaster in 2011, Germany resolved to close all its nuclear plants by 2022. Rather than replace them with cheap but dirty coal-fired plants, Berlin envisions a huge investment in green technology, aiming to cover 35 percent of the country's energy needs with renewable energy by 2020. In certain states, such as Bavaria, which generates 58 percent of its electricity from nuclear power, Germany will need to build massive amounts of new energy infrastructure. Vast offshore wind farms and an upgrade to the north–south transmission system are also on the drawing board. This energy transformation will likely end up costing over 200 billion euros.

These numbers should not be a cause for alarm. On the contrary, the priorities are sensible, and this scale of investment is precisely what Germany needs to grow sustainably. A boost to German domestic demand could also help rebalance the European economy, creating markets for imports and jobs for migrant workers, thus helping offset the deflation that the crisis countries have endured. But Berlin has been unable to spell out exactly where the money will come from, and so the future of these projects is in doubt.

The question of how to pay for investment in Germany should not be hard to answer. Remaking the country's child-care system and energy infrastructure are exactly the types of long-term projects that should be financed through borrowing, and Germany could hardly be better placed to do so. In June, the country was selling debt at negative yields. It can borrow for virtually nothing. A chorus of eminent economists from across the world, Larry Summers and Martin Wolf among them, continue to call for governments to bring forward all their essential spending plans to take advantage of the low-interest-rate bonanza. But Merkel and the German political class will have none of it. Over the last decade, a deep anti-debt consensus has taken root in Germany, and the country is now stuck with its 2009 balanced-budget amendment.

TALKIN' 'BOUT THE NEXT GENERATION

The rhetoric that inspired more than two-thirds of the Bundestag to adopt this radical amendment was a call for sustainability, once the slogan of the environmental movement. Supporters of the so-called debt brake claimed that a limit on government borrowing would ensure that the country's finances would remain in order and leave a more equitable future for generations to come. But there are two types of intergenerational bargains that voters can make, one positive and the other negative. In a positive bargain, the current generation commits to leaving a better world for its children. In a negative bargain, the current generation vows not to leave its children with a large problem—in this case, a big public debt burden. The first model implies that the balance sheet should be left in a healthy state, with borrowing not exceeding productive investment. The second model implies simply that public debt should be reduced. Despite protests from a list of distinguished economists, trade unions, and public interest groups, in 2009, the negative model prevailed. As a result, even though Berlin recognizes the need to raise investment and the federal government faces favorable financial conditions, it is prevented from taking advantage of them by a legal obstacle of its own making.

What drove this decision was a sense of crisis, a sentiment that may baffle outsiders who see Germany as the picture of economic health but makes sense when one looks at Germany's finances on the state level. Over the last 20 years, while Germany toiled to boost the competitiveness of its export sector, its politicians failed to keep public finances in balance. Now, although the federal government's deficits are tolerable, and the finances of the rich southern states are in excellent shape, in much of the North and the East, public finances teeter on the edge of crisis. In 2011, the debt of the state of Berlin ran to 66 percent of state-level GDP. To contain this runaway problem, the affluent southern states agreed to bail out their bankrupt northern counterparts in exchange for a deal under which all new borrowing by the states would cease by 2020 and the federal government itself would restrict its new borrowing to no more than 0.35 percent of GDP annually. These drastic provisions were the price paid for holding together the fiscal union of the Federal Republic.

The internal drama of Germany's state finances sheds light on why Germany has taken such a conservative approach to Europe's sovereign debt crisis. It is this same bargain—fiscal austerity in exchange for the preservation of a union—that Germany now proposes to extend to Greece, Italy, and Spain. But as critics of Berlin have consistently pointed out, any sustainable financial consolidation must have two components: a policy to contain profligate spending and a strategy for growth. And for both German states and similarly squeezed European countries, Merkel has failed to articulate a plan for economic growth. Berlin acknowledges the German economy's need for domestic investment. But committed to a debt brake both at home and for Europe as a whole, the German finance ministry insists that growth can come only as a result of austerity.

Consider the implications of this model. With new borrowing frozen, Germany projects that its debt-to-GDP ratio will steadily decline. Yet since revenue from taxes on corporate and household income has been dropping as a share of GDP in Germany, as in much of the rest of the developed world, the government's budget will be much smaller. If, faced with this squeeze, Berlin is to make good on its promises of investment in energy infrastructure, preschools, universities, and research and development, it will have to engage in relentless cutting of every euro of nonproductive public spending—a painful and politically unpopular proposition. German leaders must therefore be hoping that their strategy of shrinking and rebalancing the state will trigger a dramatic revival of private investment. What is remarkable about this model, which Merkel is now advocating not just for Germany but also for the rest of Europe, is how un-European it seems. The scenario sounds awfully like a 1980s-era supply-side utopia.

Even if Merkel's government gets exactly what it wants—massive investment from the private sector alongside public investments financed without any increase in public borrowing—the pain will be real. The government will be forced to pay for these investments by raising taxes, clawing back exemptions, and, above all, charging consumers. Already, because of steep energy charges, Germans pay more than three times as much for electricity as Americans, and those costs will likely rise by at least 50 percent over the course of the *Energiewende*. What is more, relying on cooperation with the private sector to fund long-term strategic investment carries its own risks. Public-private partnerships may be efficient on a case-by-case basis, but they also breed conflicts of interest. This year, when the federal government tried to end an expensive subsidy it had enacted to steer private investment toward solar energy, it had to fight a protracted battle with interested state governments. The result was a messy compromise in which the federal government had to offer a guaranteed price for solar-generated power for 20 years.

And this less-than-ideal outcome is the most optimistic scenario. Far more likely, given the massive fiscal pressure brought to bear by the debt brake, is that much-needed investment will simply slip further and further behind schedule. After all, even when the federal, state, and local governments were allowed to borrow, they tended to neglect investment. If long-term spending can be financed only from current income, the prospects for renewed investment will surely be even more dim. Just look at Switzerland, which in 2003 was the first European country to introduce a debt brake and served as the model for the German initiative. Although its debt-to-GDP ratio has come down dramatically since then, its levels of public investment are among the lowest in the developed world. A debt brake may bring overall public expenditures in line with revenues. But it is naive to hope that it will get the public sector to shift its attention from short-term to long-term priorities.

UNTIL THE CASH COWS COME HOME

If Berlin does stick to its strategy of reining in the country's finances, the challenge facing Germany's leaders will be to reverse the collapse in domestic business investment. This will not be an easy problem to solve. For the last ten years, the German private sector has benefited from a remarkably favorable businesses environment. But even in these good times, it chose to direct its funds abroad, in order to develop markets for German goods elsewhere in Europe and in Asia. It is hard to see what more the German government could do to prevent its businesses from spending their profits outside the country. Meanwhile, the positive political and social climate of the last decade seems set to deteriorate.

Surely, the answer cannot simply be more cuts to the salaries of German workers. Between 2000 and 2009, while corporate profits soared, exports boomed, and capital fled the country, real wages in Germany fell by one percent. According to the OECD, over the last 20 years, income inequality in Germany, as measured by the Gini coefficient, has risen only fractionally less than in the United States and twice as rapidly as the OECD average. How long can German employers expect their workers, faced with creeping tax increases and budget cuts, to continue to consent to this inequitable tradeoff? According to a 2009 poll conducted by the GfK Group, Germany's largest market research institute, only 24.9 percent of Germans considered their society to be "fair"—and this was before the worst of the crisis had hit.

At the same time, Germany's political system has become increasingly fragmented. Even during the economic and political turmoil of the 1970s, the two largest parties, the CDU and the Social Democratic Party (SDP), commanded 90 percent of the German electorate. Since 2000, their combined share has dropped to nearly 70 percent, requiring them to build complex and fragile coalitions with a roster of four other smaller parties. Most recently, the Pirate Party, an inchoate protest group of indeterminate ideology, has emerged as a real political force and is set to gain representation across the country. The anger of voters with the government's response to the current crisis will only further strain the ability of the mainstream parties to channel and articulate public opinion.

One could imagine that the very incoherence of the German political landscape might, ironically, allow the country to escape its economic predicament. After all, it took an unusual coalition of the CDU and the SDP to put the debt brake into the constitution in the first place. It is more than likely that in the event of a severe shock to the German economy, perhaps brought on by a disorderly unraveling of the eurozone, an embattled coalition government would simply have to ignore the debt brake. No doubt, a truly comprehensive Europe-wide economic crisis might also lead German businesses to retreat into safer domestic investments. But to hope for such a catastrophic scenario is to play with fire. The political fallout would be incalculable. An outright abandonment of the debt clause would encounter fierce resistance from the low-debt states of southern Germany, provoking a crisis of Germany's own fiscal union. It would also bring the government in conflict with Germany's powerful constitutional court in Karlsruhe.

The best chance for Germany to emerge from the current impasse with a strategy for growth—for both itself and the rest of Europe—would be for it to treat austerity not as a permanent economic policy but as a form of shock therapy. After the market regains confidence in the euro, after German states and the rest of Europe pay down some of their debts, and after several years of fiscal pain, low investment, and low growth, Berlin can hopefully reconsider its course. If true sustainability is an attractive goal, then conceiving of it merely in negative terms, as the avoidance of long-term debt, is not only inadequate; it is also self-defeating. Germany must aim to leave future generations not only with fewer liabilities but also with the makings of a better world. For now, however, in the absence of meaningful investment, Germany's long-term challenges continue to accumulate. The unprecedented opportunity presented by the current crisis—to put the global appetite for German debt to good use—risks being squandered.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Essays

The United States uses soothing words and casts its actions as a search for peace, but Beijing sees Washington as two-faced.

How China Sees America

The Sum of Beijing's Fears

Andrew J. Nathan and Andrew Scobell

"Great power" is a vague term, but China deserves it by any measure: the extent and strategic location of its territory, the size and dynamism of its population, the value and growth rate of its economy, the massive size of its share of global trade, and the strength of its military. China has become one of a small number of countries that have significant national interests in every part of the world and that command the attention, whether willingly or grudgingly, of every other country and every international organization. And perhaps most important, China is the only country widely seen as a possible threat to U.S. predominance. Indeed, China's rise has led to fears that the country will soon overwhelm its neighbors and one day supplant the United States as a global hegemon.

But widespread perceptions of China as an aggressive, expansionist power are off base. Although China's relative power has grown significantly in recent decades, the main tasks of Chinese foreign policy are defensive and have not changed much since the Cold War era: to blunt destabilizing influences from abroad, to avoid territorial losses, to reduce its neighbors' suspicions, and to sustain economic growth. What has changed in the past two decades is that China is now so deeply integrated into the world economic system that its

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internal and regional priorities have become part of a larger quest: to define a global role that serves Chinese interests but also wins acceptance from other powers.

Chief among those powers, of course, is the United States, and managing the fraught U.S.-Chinese relationship is Beijing's foremost foreign policy challenge. And just as Americans wonder whether China's rise is good for U.S. interests or represents a looming threat, Chinese policymakers puzzle over whether the United States intends to use its power to help or hurt China.

Americans sometimes view the Chinese state as inscrutable. But given the way that power is divided in the U.S. political system and the frequent power turnovers between the two main parties in the United States, the Chinese also have a hard time determining U.S. intentions. Nevertheless, over recent decades, a long-term U.S. strategy seems to have emerged out of a series of American actions toward China. So it is not a hopeless exercise—indeed, it is necessary—for the Chinese to try to analyze the United States.

Most Americans would be surprised to learn the degree to which the Chinese believe the United States is a revisionist power that seeks to curtail China's political influence and harm China's interests. This view is shaped not only by Beijing's understanding of Washington but also by the broader Chinese view of the international system and China's place in it, a view determined in large part by China's acute sense of its own vulnerability.

THE FOUR RINGS

THE WORLD as seen from Beijing is a terrain of hazards, beginning with the streets outside the policymaker's window, to land borders and sea-lanes thousands of miles away, to the mines and oil fields of distant continents. These threats can be described in four concentric rings. In the first ring, the entire territory that China administers or claims, Beijing believes that China's political stability and territorial integrity are threatened by foreign actors and forces. Compared with other large countries, China must deal with an unparalleled number of outside actors trying to influence its evolution, often in ways the regime considers detrimental to its survival. Foreign investors, development advisers, tourists, and students swarm the country, all with their own ideas about how China should change. Foreign foundations and governments give financial and technical support to Chinese groups promoting civil society. Dissidents in Tibet and Xinjiang receive moral and diplomatic support and sometimes material assistance from ethnic diasporas and sympathetic governments abroad. Along the coast, neighbors contest maritime territories that Beijing claims. Taiwan is ruled by its own government, which enjoys diplomatic recognition from 23 states and a security guarantee from the United States.

At China's borders, policymakers face a second ring of security concerns, involving China's relations with 14 adjacent countries. No other country except Russia has as many contiguous neighbors. They include five countries with which China has fought wars in the past 70 years (India, Japan, Russia, South Korea, and Vietnam) and a number of states ruled by unstable regimes. None of China's neighbors perceives its core national interests as congruent with Beijing's.

But China seldom has the luxury of dealing with any of its neighbors in a purely bilateral context. The third ring of Chinese security concerns consists of the politics of the six distinct geopolitical regions that surround China: Northeast Asia, Oceania, continental Southeast Asia, maritime Southeast Asia, South Asia, and Central Asia. Each of these areas presents complex regional diplomatic and security problems.

Finally, there is the fourth ring: the world far beyond China's immediate neighborhood. China has truly entered this farthest circle only since the late 1990s and so far for limited purposes: to secure sources of commodities, such as petroleum; to gain access to markets and investments; to get diplomatic support for isolating Taiwan and Tibet's Dalai Lama; and to recruit allies for China's positions on international norms and legal regimes.

INSCRUTABLE AMERICA

In each of China's four security rings, the United States is omnipresent. It is the most intrusive outside actor in China's internal affairs, the guarantor of the status quo in Taiwan, the largest naval

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presence in the East China and South China seas, the formal or informal military ally of many of China's neighbors, and the primary framer and defender of existing international legal regimes. This omnipresence means that China's understanding of American motives determines how the Chinese deal with most of their security issues.

Beginning with President Richard Nixon, who visited China in 1972, a succession of American leaders have assured China of their goodwill. Every U.S. presidential administration says that China's prosperity and stability are in the interest of the United States. And in practice, the United States has done more than any other power to contribute to China's modernization. It has drawn China into the global economy; given the Chinese access to markets, capital, and technology; trained Chinese experts in science, technology, and international law; prevented the full remilitarization of Japan; maintained the peace on the Korean Peninsula; and helped avoid a war over Taiwan.

Beijing assumes that as China rises, the United States will resist.

Yet Chinese policymakers are more impressed by policies and behaviors that they perceive as less benevolent. The American military is deployed all around China's periphery, and the United States maintains a wide network of defense relationships with China's neighbors. Washington continues to frustrate Beijing's efforts to gain control over Taiwan. The United States constantly pressures China over its economic policies and maintains a host of government and private programs that seek to influence Chinese civil society and politics.

Beijing views this seemingly contradictory set of American actions through three reinforcing perspectives. First, Chinese analysts see their country as heir to an agrarian, eastern strategic tradition that is pacifistic, defense-minded, nonexpansionist, and ethical. In contrast, they see Western strategic culture—especially that of the United States—as militaristic, offense-minded, expansionist, and selfish.

Second, although China has embraced state capitalism with vigor, the Chinese view of the United States is still informed by Marxist political thought, which posits that capitalist powers seek to exploit the rest of the world. China expects Western powers to resist Chinese competition for resources and higher-value-added markets. And although China runs trade surpluses with the United States and holds a large amount of U.S. debt, China's leading political analysts believe the Americans get the better end of the deal by using cheap Chinese labor and credit to live beyond their means.

Third, American theories of international relations have become popular among younger Chinese policy analysts, many of whom have earned advanced degrees in the United States. The most influential body of international relations theory in China is so-called offensive realism, which holds that a country will try to control its security environment to the full extent that its capabilities permit. According to this theory, the United States cannot be satisfied with the existence of a powerful China and therefore seeks to make the ruling regime there weaker and more pro-American. Chinese analysts see evidence of this intent in Washington's calls for democracy and its support for what China sees as separatist movements in Taiwan, Tibet, and Xinjiang.

Whether they see the United States primarily through a culturalist, Marxist, or realist lens, most Chinese strategists assume that a country as powerful as the United States will use its power to preserve and enhance its privileges and will treat efforts by other countries to protect their interests as threats to its own security. This assumption leads to a pessimistic conclusion: as China rises, the United States will resist. The United States uses soothing words; casts its actions as a search for peace, human rights, and a level playing field; and sometimes offers China genuine assistance. But the United States is two-faced. It intends to remain the global hegemon and prevent China from growing strong enough to challenge it. In a 2011 interview with *Liaowang*, a state-run Chinese newsmagazine, Ni Feng, the deputy director of the Chinese Academy of Social Sciences' Institute of American Studies, summed up this view. "On the one hand, the United States realizes that it needs China's help on many regional and global issues," he said. "On the other hand, the United States is worried about a more powerful China and uses multiple means to delay its development and to remake China with U.S. values."

A small group of mostly younger Chinese analysts who have closely studied the United States argues that Chinese and American interests are not totally at odds. In their view, the two countries are sufficiently remote from each other that their core security interests

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need not clash. They can gain mutual benefit from trade and other common interests.

But those holding such views are outnumbered by strategists on the other side of the spectrum, mostly personnel from the military and security agencies, who take a dim view of U.S. policy and have more confrontational ideas about how China should respond to it. They believe that China must stand up to the United States militarily and that it can win a conflict, should one occur, by outpacing U.S. military technology and taking advantage of what they believe to be superior morale within China's armed forces. Their views are usually kept out of sight to avoid frightening both China's rivals and its friends.

WHO IS THE REVISIONIST?

To PEER more deeply into the logic of the United States' China strategy, Chinese analysts, like analysts everywhere, look at capabilities and intentions. Although U.S. intentions might be subject to interpretation, U.S. military, economic, ideological, and diplomatic capabilities are relatively easy to discover—and from the Chinese point of view, they are potentially devastating.

U.S. military forces are globally deployed and technologically advanced, with massive concentrations of firepower all around the Chinese rim. The U.S. Pacific Command (PACOM) is the largest of the United States' six regional combatant commands in terms of its geographic scope and nonwartime manpower. PACOM's assets include about 325,000 military and civilian personnel, along with some 180 ships and 1,900 aircraft. To the west, PACOM gives way to the U.S. Central Command (CENTCOM), which is responsible for an area stretching from Central Asia to Egypt. Before September 11, 2001, CENTCOM had no forces stationed directly on China's borders except for its training and supply missions in Pakistan. But with the beginning of the "war on terror," CENTCOM placed tens of thousands of troops in Afghanistan and gained extended access to an air base in Kyrgyzstan.

The operational capabilities of U.S. forces in the Asia-Pacific are magnified by bilateral defense treaties with Australia, Japan, New Zealand, the Philippines, and South Korea and cooperative arrangements with other partners. And to top it off, the United States possesses some 5,200 nuclear warheads deployed in an invulnerable sea, land, and air triad. Taken together, this U.S. defense posture creates what Qian Wenrong of the Xinhua News Agency's Research Center for International Issue Studies has called a "strategic ring of encirclement."

Chinese security analysts also take note of the United States' extensive capability to damage Chinese economic interests. The United States is still China's single most important market, unless one counts the European Union as a single entity. And the United States is one of China's largest sources of foreign direct investment and advanced technology. From time to time, Washington has entertained the idea of wielding its economic power coercively. After the 1989 Tiananmen Square crackdown, the United States imposed some limited diplomatic and economic sanctions on China, including an embargo, which is still in effect, on the sale of advanced arms. For several years after that, Congress debated whether to punish China further for human rights violations by canceling the low most-favored-nation tariff rates enjoyed by Chinese imports, although proponents of the plan could never muster a majority. More recently, U.S. legislators have proposed sanctioning China for artificially keeping the value of the yuan low to the benefit of Chinese exporters, and the Republican presidential candidate Mitt Romney has promised that if elected, he will label China a currency manipulator on "day one" of his presidency.

> Chinese analysts believe the United States possesses potent ideological weapons and the willingness to use them.

Although trade hawks in Washington seldom prevail, flare-ups such as these remind Beijing how vulnerable China would be if the United States decided to punish it economically. Chinese strategists believe that the United States and its allies would deny supplies of oil and metal ores to China during a military or economic crisis and that the U.S. Navy could block China's access to strategically crucial sea-lanes. The ubiquity of the dollar in international trade and finance also gives the United States the ability to damage Chinese interests, either on purpose or as a result of attempts by the U.S. government to address its fiscal problems by printing dollars and increasing borrowing, acts that drive down the value of China's dollar-denominated exports and foreign exchange reserves.

Chinese analysts also believe that the United States possesses potent ideological weapons and the willingness to use them. After World War II, the United States took advantage of its position as the dominant power to enshrine American principles in the Universal Declaration of Human Rights and other international human rights instruments and to install what China sees as Western-style democracies in Japan and, eventually, South Korea, Taiwan, and other countries. Chinese officials contend that the United States uses the ideas of democracy and human rights to delegitimize and destabilize regimes that espouse alternative values, such as socialism and Asian-style developmental authoritarianism. In the words of Li Qun, a member of the Shandong Provincial Party Committee and a rising star in the Communist Party, the Americans' "real purpose is not to protect so-called human rights but to use this pretext to influence and limit China's healthy economic growth and to prevent China's wealth and power from threatening [their] world hegemony."

In the eyes of many Chinese analysts, since the end of the Cold War the United States has revealed itself to be a revisionist power that tries to reshape the global environment even further in its favor. They see evidence of this reality everywhere: in the expansion of NATO; the U.S. interventions in Panama, Haiti, Bosnia, and Kosovo; the Gulf War; the war in Afghanistan; and the invasion of Iraq. In the economic realm, the United States has tried to enhance its advantages by pushing for free trade, running down the value of the dollar while forcing other countries to use it as a reserve currency, and trying to make developing countries bear an unfair share of the cost of mitigating global climate change. And perhaps most disturbing to the Chinese, the United States has shown its aggressive designs by promoting so-called color revolutions in Georgia, Ukraine, and Kyrgyzstan. As Liu Jianfei, director of the foreign affairs division of the Central Party School of the Chinese Communist Party, wrote in 2005, "The U.S. has always opposed communist 'red revolutions' and hates the 'green revolutions' in Iran and other Islamic states. What it cares about is not 'revolution' but 'color.' It supported the 'rose,' 'orange', and 'tulip' revolutions because they served its democracy promotion strategy." As Liu and other top Chinese analysts see it, the United States hopes "to spread democracy further and turn the whole globe 'blue.'"

EXPLOITING TAIWAN

Although American scholars and commentators typically see U.S.-Chinese relations in the postwar period as a long, slow thaw, in Beijing's view, the United States has always treated China harshly. From 1950 to 1972, the United States tried to contain and isolate China. Among other actions, it prevailed on most of its allies to withhold diplomatic recognition of mainland China, organized a trade embargo against the mainland, built up the Japanese military, intervened in the Korean War, propped up the rival regime in Taiwan, supported Tibetan guerillas fighting Chinese control, and even threatened to use nuclear weapons during both the Korean War and the 1958 Taiwan Strait crisis. Chinese analysts concede that the United States' China policy changed after 1972. But they assert that the change was purely the result of an effort to counter the Soviet Union and, later, to gain economic benefits by doing business in China. Even then, the United States continued to hedge against China's rise by maintaining Taiwan as a strategic distraction, aiding the growth of Japan's military, modernizing its naval forces, and pressuring China on human rights.

The Chinese have drawn lessons about U.S. China policy from several sets of negotiations with Washington. During ambassadorial talks during the 1950s and 1960s, negotiations over arms control in the 1980s and 1990s, discussions over China's accession to the World Trade Organization in the 1990s, and negotiations over climate change during the decade that followed, the Chinese consistently saw the Americans as demanding and unyielding. But most decisive for Chinese understandings of U.S. policy were the three rounds of negotiations that took place over Taiwan in 1971–72, 1978–79, and 1982, which created the "communiqué framework" that governs U.S.

Taiwan policy to this day. When the U.S.-Chinese rapprochement began, Chinese policymakers assumed that Washington would give up its support for Taipei in exchange for the benefits of normal state-to-state relations with Beijing. At each stage of the negotiations, the Americans seemed willing to do so. Yet decades later, the United States remains, in Beijing's view, the chief obstacle to reunification.

When Nixon went to China in 1972, he told the Chinese that he was willing to sacrifice Taiwan because it was no longer strategically important to the United States, but that he could not do so until his second term. On this basis, the Chinese agreed to the 1972 Shanghai Communiqué, even though it contained a unilateral declaration by the United States that "reaffirm[ed] its interest in a peaceful settlement of the Taiwan question," which was diplomatic code for a U.S. commitment to deter any effort by the mainland to take Taiwan by force. As events played out, Nixon resigned before he was able to normalize relations with Beijing, and his successor, Gerald Ford, was too weak politically to fulfill Nixon's promise.

The Chinese see American negotiators as demanding and unyielding.

When the next president, Jimmy Carter, wanted to normalize relations with China, the Chinese insisted on a clean break with Taiwan. In 1979, the United States ended its defense treaty with Taiwan but again issued a unilateral statement restating its commitment to a "peaceful resolution of the Taiwan issue." Congress then surprised both the Chinese and the administration by adopting the Taiwan Relations Act, which required the United States to "maintain [its] capacity . . . to resist any resort to force or other forms of coercion that would jeopardize the security . . . of the people on Taiwan." Once again, the deterrent intent was clear.

In 1982, when President Ronald Reagan sought closer relations with Beijing to ramp up pressure on Moscow, China prevailed on the United States to sign another communiqué, which committed Washington to gradually reducing its weapons sales to Taiwan. But once the agreement was in place, the Americans set the benchmark year at 1979, when arms sales had reached their highest level; calculated annual reductions at a small marginal rate, adjusting for inflation so that they were actually increases; claimed that the more advanced weapons systems that they sold Taiwan were the qualitative equivalents of older systems; and allowed commercial firms to cooperate with the Taiwanese armaments industry under the rubric of technology transfers rather than arms sales. By the time President George W. Bush approved a large package of advanced arms to Taiwan in April 2001, the 1982 communiqué was a dead letter. Meanwhile, as the United States prolonged its involvement with Taiwan, a democratic transition took place there, putting unification even further out of Beijing's reach.

Reviewing this history, Chinese strategists ask themselves why the United States remains so committed to Taiwan. Although Americans often argue that they are simply defending a loyal democratic ally, most Chinese see strategic motives at the root of Washington's behavior. They believe that keeping the Taiwan problem going helps the United States tie China down. In the words of Luo Yuan, a retired general and deputy secretary-general of the Chinese Society of Military Science, the United States has long used Taiwan "as a chess piece to check China's rise."

THE PERILS OF PLURALISM

The Taiwan Relations Act marked the beginning of a trend toward congressional assertiveness on U.S. China policy, and this continues to complicate Washington's relationship with Beijing. Ten years later, the 1989 Tiananmen incident, followed by the end of the Cold War, shifted the terms of debate in the United States. China had been perceived as a liberalizing regime; after Tiananmen, China morphed into an atavistic dictatorship. And the collapse of the Soviet Union vitiated the strategic imperative to cooperate with Beijing. What is more, growing U.S.-Chinese economic ties began to create frictions over issues such as the dumping of cheap manufactured Chinese goods on the U.S. market and the piracy of U.S. intellectual property. After decades of consensus in the United States, China quickly became one of the most divisive issues in U.S. foreign policy, partially due to the intense advocacy efforts of interest groups that make sure China stays on the agenda on Capitol Hill.

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Indeed, since Tiananmen, China has attracted the attention of more American interest groups than any other country. China's political system elicits opposition from human rights organizations; its population-control policies anger the antiabortion movement; its repression of churches offends American Christians; its inexpensive exports trigger demands for protection from organized labor; its reliance on coal and massive dams for energy upsets environmental groups; and its rampant piracy and counterfeiting infuriate the film, software, and pharmaceutical industries. These specific complaints add strength to the broader fear of a "China threat," which permeates American political discourse—a fear that, in Chinese eyes, not only denies the legitimacy of Chinese aspirations but itself constitutes a kind of threat to China.

Of course, there are also those in Congress, think tanks, the media, and academia who support positions favorable to China, on the basis that cooperation is important for American farmers, exporters, and banks, and for Wall Street, or that issues such as North Korea and climate change are more important than disputes over rights or religion. Those advocates may be more powerful in the long run than those critical of China, but they tend to work behind the scenes. To Chinese analysts trying to make sense of the cacophony of views expressed in the U.S. policy community, the loudest voices are the easiest to hear, and the signals are alarming.

SUGARCOATED THREATS

In trying to ascertain U.S. intentions, Chinese analysts also look at policy statements made by senior figures in the executive branch. Coming from a political system where the executive dominates, Chinese analysts consider such statements reliable guides to U.S. strategy. They find that the statements often do two things: they seek to reassure Beijing that Washington's intentions are benign, and at the same time, they seek to reassure the American public that the United States will never allow China's rise to threaten U.S. interests. This combination of themes produces what Chinese analysts perceive as sugarcoated threats.

For example, in 2005, Robert Zoellick, the U.S. deputy secretary of state, delivered a major China policy statement on behalf of the

George W. Bush administration. He reassured his American audience that the United States would "attempt to dissuade any military competitor from developing disruptive or other capabilities that could enable regional hegemony or hostile action against the United States or other friendly countries." But he also explained that China's rise was not a threat because China "does not seek to spread radical, anti-American ideologies," "does not see itself in a death struggle with capitalism," and "does not believe that its future depends on overturning the fundamental order of the international system." On that basis, he said, the two sides could have "a cooperative relationship." But cooperation would depend on certain conditions. China should calm what he called a "cauldron of anxiety" in the United States about its rise. It should "explain its defense spending, intentions, doctrine, and military exercises"; reduce its trade surplus with the United States; and cooperate with Washington on Iran and North Korea. Above all, Zoellick advised, China should give up "closed politics." In the U.S. view, he said, "China needs a peaceful political transition to make its government responsible and accountable to its people."

China will not rule the world unless the United States withdraws from it.

The same ideas have been repeated in slightly gentler language by the Obama administration. In the administration's first major policy speech on China, in September 2009, James Steinberg, then deputy secretary of state, introduced the idea of "strategic reassurance." Steinberg defined the principle in the following way: "Just as we and our allies must make clear that we are prepared to welcome China's 'arrival' … as a prosperous and successful power, China must reassure the rest of the world that its development and growing global role will not come at the expense of [the] security and well-being of others." China would need to "reassure others that this buildup does not present a threat"; it would need to "increase its military transparency in order to reassure all the countries in the rest of Asia and globally about its intentions" and demonstrate that it "respects the rule of law and universal norms." To Chinese analysts, such statements send the message that Washington wants cooperation on its own terms, seeks to deter Beijing from developing a military capability adequate to defend its interests, and intends to promote change in the character of the Chinese regime.

To be sure, Beijing's suspicion of Washington must contend with the fact that the United States has done so much to promote China's rise. But for Chinese analysts, history provides an answer to this puzzle. As they see it, the United States contained China for as long as it could. When the Soviet Union's rising strength made doing so necessary, the United States was forced to engage with China in order to reinforce its hand against Moscow. Once the United States started to engage with China, it came to believe that engagement would turn China toward democracy and would win back for the United States the strategic base on the mainland of Asia that Washington lost in 1949, when the Communists triumphed in the Chinese Civil War.

In the Chinese view, Washington's slow rapprochement with Beijing was not born of idealism and generosity; instead, it was pursued so that the United States could profit from China's economic opening by squeezing profits from U.S. investments, consuming cheap Chinese goods, and borrowing money to support the U.S. trade and fiscal deficits. While busy feasting at the Chinese table, U.S. strategists overlooked the risk of China's rise until the late 1990s. Now that the United States perceives China as a threat, these Chinese analysts believe, it no longer has any realistic way to prevent it from continuing to develop. In this sense, the U.S. strategy of engagement failed, vindicating the advice of Chinese leader Deng Xiaoping, who in 1991 advocated a strategy of "hiding our light and nurturing our strength." Faced with a China that has risen too far to be stopped, the United States can do no more than it is doing: demand cooperation on U.S. terms, threaten China, hedge militarily, and continue to try to change the regime.

HOW DO YOU HANDLE AN OFFENSIVE REALIST?

Despite these views, mainstream Chinese strategists do not advise China to challenge the United States in the foreseeable future. They expect the United States to remain the global hegemon for several decades, despite what they perceive as initial signs of decline. For the time being, as described by Wang Jisi, dean of Peking

University's School of International Studies, "the superpower is more super, and the many great powers less great." Meanwhile, the two countries are increasingly interdependent economically and have the military capability to cause each other harm. It is this mutual vulnerability that carries the best medium-term hope for cooperation. Fear of each other keeps alive the imperative to work together.

In the long run, however, the better alternative for both China and the West is to create a new equilibrium of power that maintains the current world system, but with a larger role for China. China has good reasons to seek that outcome. Even after it becomes the world's largest economy, its prosperity will remain dependent on the prosperity of its global rivals (and vice versa), including the United States and Japan. The richer China becomes, the greater will be its stake in the security of sea-lanes, the stability of the world trade and financial regimes, nonproliferation, the control of global climate change, and cooperation on public health. China will not get ahead if its rivals do not also prosper. And Chinese strategists must come to understand that core U.S. interests—in the rule of law, regional stability, and open economic competition—do not threaten China's security.

The United States should encourage China to accept this new equilibrium by drawing clear policy lines that meet its own security needs without threatening China's. As China rises, it will push against U.S. power to find the boundaries of the United States' will. Washington must push back to establish boundaries for the growth of Chinese power. But this must be done with cool professionalism, not rhetorical belligerence. Hawkish campaign talk about trade wars and strategic competition plays into Beijing's fears while undercutting the necessary effort to agree on common interests. And in any case, putting such rhetoric into action is not a realistic option. To do so would require a break in mutually beneficial economic ties and enormous expenditures to encircle China strategically, and it would force China into antagonistic reactions.

Nevertheless, U.S. interests in relation to China are uncontroversial and should be affirmed: a stable and prosperous China, resolution of the Taiwan issue on terms Taiwan's residents are willing to accept, freedom of navigation in the seas surrounding China, the security of Japan and other Asian allies, an open world economy, and the protection of human rights. The United States must back these preferences with credible U.S. power, in two domains in particular. First, the United States must maintain its military predominance in the western Pacific, including the East China and South China seas. To do so, Washington will have to continue to upgrade its military capabilities, maintain its regional defense alliances, and respond confidently to challenges. Washington should reassure Beijing that these moves are intended to create a balance of common interests rather than to threaten China. That reassurance can be achieved by strengthening existing mechanisms for managing U.S.-Chinese military interactions. For example, the existing Military Maritime Consultative Agreement should be used to design procedures that would allow U.S. and Chinese aircraft and naval vessels to operate safely when in close proximity.

Second, the United States should continue to push back against Chinese efforts to remake global legal regimes in ways that do not serve the interests of the West. This is especially important in the case of the human rights regime, a set of global rules and institutions that will help determine the durability of the liberal world order the United States has long sought to uphold.

China has not earned a voice equal to that of the United States in a hypothetical Pacific Community or a role in a global condominium as one member of a "G-2." China will not rule the world unless the United States withdraws from it, and China's rise will be a threat to the United States and the world only if Washington allows it to become one. For the United States, the right China strategy begins at home. Washington must sustain the country's military innovation and renewal, nurture its relationships with its allies and other cooperating powers, continue to support a preeminent higher-education sector, protect U.S. intellectual property from espionage and theft, and regain the respect of people around the world. As long as the United States addresses its problems at home and holds tight to its own values, it can manage China's rise.

Bucking Beijing

An Alternative U.S. China Policy

Aaron L. Friedberg

In contrast to its Cold War strategy of containment, Washington's current approach to China is not the product of a deliberate planning process. It is nowhere codified in official documents. Indeed, it does not even have a name. Still, for the better part of two decades, the United States has pursued a broadly consistent two-pronged strategy combining engagement and balancing.

U.S. presidents from Richard Nixon to Barack Obama have worked to engage China through diplomacy, trade, scientific cooperation, and educational and cultural exchange. Since the mid-1990s, successive administrations have also taken steps to maintain a favorable balance of power in East Asia. As China has grown stronger, the United States has bolstered its own military capabilities in the region, enhanced its strategic cooperation with traditional allies, and built new partnerships with other countries that share its concerns, such as India and Singapore.

The engagement half of this strategy has been geared toward enmeshing China in global trade and international institutions, discouraging it from challenging the status quo, and giving it incentives to become what the George W. Bush administration termed a

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"responsible stakeholder" in the existing international system. Although U.S. policymakers have grown more circumspect in recent years, they have long hoped that trade and dialogue would help eventually transform China into a liberal democracy. The other half of Washington's China strategy, the balancing half, has looked to maintain stability and deter aggression or attempts at coercion while engagement works its magic.

Recent events have raised serious doubts about both elements of this strategy. Decades of trade and talk have not hastened China's political liberalization. Indeed, the last few years have been marked by an intensified crackdown on domestic dissent. At the same time, the much-touted economic relationship between the two Pacific powers has become a major source of friction. And despite hopes for enhanced cooperation, Beijing has actually done very little to help Washington solve pressing international problems, such as North Korea's acquisition of nuclear weapons or Iran's attempts to develop them. Finally, far from accepting the status quo, China's leaders have become more forceful in attempting to control the waters and resources off their country's coasts. As for balancing, the continued buildup of China's military capabilities, coupled with impending cuts in U.S. defense spending, suggests that the regional distribution of power is set to shift sharply in Beijing's favor.

WHY WE CAN'T ALL JUST GET ALONG

Today, China's ruling elites are both arrogant and insecure. In their view, continued rule by the Chinese Communist Party (CCP) is essential to China's stability, prosperity, and prestige; it is also, not coincidentally, vital to their own safety and comfort. Although they have largely accepted some form of capitalism in the economic sphere, they remain committed to preserving their hold on political power.

The CCP's determination to maintain control informs the regime's threat perceptions, goals, and policies. Anxious about their legitimacy, China's rulers are eager to portray themselves as defenders of the national honor. Although they believe China is on track to become a world power on par with the United States, they remain deeply fearful of encirclement and ideological subversion. And despite

Washington's attempts to reassure them of its benign intentions, Chinese leaders are convinced that the United States aims to block China's rise and, ultimately, undermine its one-party system of government.

Like the United States, since the end of the Cold War, China has pursued an essentially constant approach toward its greatest external challenger. For the most part, Beijing has sought to avoid outright confrontation with the United States while pursuing economic growth and building up all the elements of its "comprehensive national power," a Chinese strategic concept that encompasses military strength, technological prowess, and diplomatic influence. Even as they remain on the defensive, however, Chinese officials have not been content to remain passive. They have sought incremental advances, slowly expanding China's sphere of influence and strengthening its position in Asia while working quietly to erode that of the United States. Although they are careful never to say so directly, they seek to have China displace the United States in the long run and to restore China to what they regard as its rightful place as the preponderant regional power. Chinese strategists do not believe that they can achieve this objective quickly or through a frontal assault. Instead, they seek to reassure their neighbors, relying on the attractive force of China's massive economy to counter nascent balancing efforts against it. Following the advice of the ancient military strategist Sun-tzu, Beijing aims to "win without fighting," gradually creating a situation in which overt resistance to its wishes will appear futile.

The failure to date to achieve a genuine entente between the United States and China is the result not of a lack of effort but of a fundamental divergence of interests. Although limited cooperation on specific issues might be possible, the ideological gap between the two nations is simply too great, and the level of trust between them too low, to permit a stable modus vivendi. What China's current leaders ultimately want—regional hegemony—is not something their counterparts in Washington are willing to give. That would run counter to an axiomatic goal of U.S. grand strategy, which has remained constant for decades: to prevent the domination of either end of the Eurasian landmass by one or more potentially hostile powers.

The reasons for this goal involve a mix of strategic, economic, and ideological considerations that will continue to be valid into the foreseeable future.

A China unchecked by a U.S. presence in the region might not engage in outright conquest, but it would be well situated to enforce claims over disputed territories and resources. Freed from having to defend against perceived threats along its maritime periphery, China could project military power further afield to advance its interests in the Indian Ocean, the Middle East, and Africa. Within China's expanding sphere of influence, U.S. firms could find their access to markets, products, and natural resources constricted by trade arrangements dictated by Beijing. The prospects for political reform in the countries along China's periphery would also be diminished as long as the CCP remained in control. And from its secure Asian base, Beijing could offer aid and comfort to authoritarian regimes in other regions.

> The problem with the pivot is that to date it has lacked serious substance.

Even if China does undergo a political transformation, however, this would not suddenly erase all tensions with Washington. If history is any guide, the process of liberalization might be accompanied by internal turmoil and an increased risk of conflict with other nations. A democratic China would no doubt seek a stronger voice in regional affairs, and its aims would not always align with those of the United States. In the longer run, however, the prospects for U.S.-Chinese cooperation would be greatly enhanced. A government confident of its legitimacy would have no reason to fear encirclement and subversion by the world's democracies. Meanwhile, with other countries less likely to see China as a threat, Beijing would find it easier to reach mutually acceptable settlements with its neighbors, including Taiwan.

The United States could learn to live with a democratic China as the dominant power in East Asia, much as the United Kingdom came to accept the United States' dominant role in the Western Hemisphere. Short of Beijing's genuine democratic transition, however, Washington will not willingly abandon its policy of balancing and withdraw from the region. At the same time, barring a severe crisis or major confrontation, Washington is not likely to give up on its efforts at engagement. Some version of the mixed strategy is going to persist, at least for a while. To be at all effective, however, both of its parts will require significant adjustment.

FROM SLOGANS TO STRATEGY

As a first order of business, the United States must counter China's ongoing military buildup by bolstering the balancing half of its strategic portfolio. The Obama administration at first moved in the opposite direction, downplaying talk of hedging, highlighting the prospects for broader and deeper engagement, and suggesting that the top priority in U.S.-Chinese relations should be what James Steinberg, former deputy secretary of state, termed "strategic reassurance." To its credit, in 2010, the administration began to reverse course. In response to a series of incidents over the course of that year that resulted in heightened tensions between China and Japan, the Philippines, South Korea, and Vietnam, among others, U.S. officials began to highlight their commitment to balancing. The administration even went so far as to coin a slogan to describe its intentions: as it wound down its involvement in Afghanistan and Iraq, the United States would "pivot" toward East Asia.

The problem with the pivot is that to date it has lacked serious substance. The actions it has entailed either have been merely symbolic, such as the pending deployment of a small number of U.S. marines to Australia, or have involved simply the reallocation of existing air and naval assets from other theaters. Apart from vague references to a new "air-sea battle" concept, which the Pentagon describes, in typical jargon, as "networked, integrated, attack-in-depth to disrupt, destroy and defeat" opposing forces, the administration has not made clear how it actually intends to respond to China's increasing military capabilities. To the contrary, having announced the new approach, Defense Department spokespeople have been at pains to avoid acknowledging the obvious fact that it will be aimed primarily at China. Especially in the current fiscal climate, it is hard to see how any administration could mobilize the public support necessary to maintain a favorable balance of power in Asia if it is

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not willing to be far more candid about the nature of the challenge posed by China's growing strength.

The stakes could hardly be higher. Since the mid-1990s, China has been piecing together what Pentagon planners describe as asymmetric "anti-access/area-denial" (A2/AD) capabilities. At their heart is the development of an arsenal of accurate, relatively inexpensive, conventionally armed ballistic and cruise missiles. With these weapons, China can target virtually every air base and port in the western Pacific, as well as threaten to sink enemy surface vessels (including U.S. aircraft carriers) operating hundreds of miles off its coasts. The People's Liberation Army has also been experimenting with cyberwarfare and antisatellite weapons, and it has begun to expand its small force of intercontinental nuclear missiles.

Absent a strong U.S. response, Chinese planners might eventually come to believe that their growing A2/AD capabilities are sufficiently impressive to scare the United States off from intervening or provoking a confrontation in the region. Worse still, they might convince themselves that if the United States were to intervene, they could cripple its conventional forces in the western Pacific, leaving it with few options other than the threat of nuclear escalation. Maintaining stability requires reducing the likelihood that China's leaders could ever see initiating such an attack as being in their interest. A direct U.S.-Chinese military confrontation is, of course, extremely unlikely. But the aim of the balancing half of U.S. strategy must be to ensure that it remains so, even as China's power grows.

Failing to respond adequately to Beijing's buildup could undermine the credibility of the security guarantees that Washington extends to its Asian allies. In the absence of strong signals of continuing commitment and resolve from the United States, its friends may grow fearful of abandonment, perhaps eventually losing heart and succumbing to the temptations of appeasement. To prevent them from doing so, Washington will have to do more than talk. Together, the United States and its allies have more than sufficient resources with which to balance China. But if Washington wants its allies to increase their own defense efforts, it will have to seriously respond to China's growing capabilities itself. When it comes to Asia, the United States does not have the option of what *The New*

Yorker first described as the Obama administration's penchant for "leading from behind."

To blunt the thrust of China's A2/AD strategy, the United States and its allies must first take visible steps to disperse, harden, or otherwise defend the targets at which a Chinese first strike might be directed, including those in space and cyberspace. Modern wars are not won on the defensive, however, nor can they be deterred with a purely reactive posture. This is the central insight behind the air-sea battle concept. The advocates of this strategy argue that as China improves its ability to attack targets off its eastern coast, the United States must develop options for conducting extensive conventional counterstrikes of its own.

Whatever the strategic logic behind it, the air-sea battle concept has begun to stir up controversy on several counts. Launching large-scale conventional attacks on China could provoke an escalatory response, including the possible use of nuclear weapons. New systems for projecting power from outside the increasing range of Chinese weapons will take time and money to develop, and they will divert resources from the kinds of projects the armed services traditionally prefer. Instead of additional aircraft carriers and sleek manned fighter jets, for example, the United States would need some mix of capabilities that have yet to be developed, such as long-endurance drones, a possible next-generation manned bomber, new long-range conventional missiles, and perhaps stealthy arsenal ships loaded with precision weapons.

In light of likely financial obstacles, political objections, and strategic uncertainties, the United States and its allies might not be able to develop fully effective and persuasive conventional counters to China's growing A2/AD capabilities. As was true during the Cold War, deterrence will have to rest in part on also having plausible options for escalation. The promise that the United States might use nuclear weapons to protect its allies remains at the core of U.S. defense commitments. But that threat will lose credibility as China's own long-range nuclear arsenal grows.

Instead of relying on the prospect of escalation to ever-higher levels of violence, the United States would do better to develop options to escalate horizontally. Of these, the most obvious would be enhancing the ability to respond to aggression by joining with a coalition of maritime friends and allies to cut China's sea lines of communication. Even if Beijing believed that it could use force to achieve a quick victory over Taiwan, for example, or in the South China Sea, it would then face the prospect of losing the ability to export goods by sea or to import the energy and other resources it needs to keep its economy running. The United States can enhance the credibility of this threat by investing more in undersea warfare technologies, an area in which it already holds considerable advantages; deepening its cooperation with the navies of Australia, India, and Japan, among others; and supporting Southeast Asian nations' efforts to acquire the weapons they need to defend their own airspace and coastal waters.

THE SAD STATE OF HAPPY TALK

As the United States intensifies its efforts at balancing China, it must continue to engage China, as well. U.S. officials should make clear through both words and deeds that they seek the best possible relationship with China. But they need to cure themselves of the habit of exaggerating actual accomplishments and areas of agreement and understating problems and differences. Diplomatic happy talk has done nothing to soften Beijing's perceptions of Washington's intentions and has instead conveyed an unrealistic picture of the state of U.S.-Chinese relations to the American people and to friendly nations.

Rather than treating engagement as desirable for its own sake, the United States needs to take a more clear-eyed and results-oriented approach. The place to start is trade. The bilateral economic relationship still provides benefits to both sides, but it has recently grown increasingly lopsided. Beijing uses its currency policy and subsidies of various kinds to boost its exports. It pressures foreign companies to transfer technology to China in return for access to its domestic market. And it looks the other way while Chinese firms engage in the wholesale theft of intellectual property. Unlike Japan in the 1970s and 1980s, China is not just a problematic trading partner whose government employs mercantilist measures to tip the scales to its advantage; it is also a geopolitical rival that uses commercial relations for its strategic advantage.

China's massive bilateral trade surplus with the United States and Beijing's accumulation of dollar-denominated assets are thus worrisome for reasons that transcend economics. In recent years, Chinese analysts and officials have suggested that if Washington defied Beijing's wishes on various issues, including arms sales to Taiwan and presidential visits with the Dalai Lama, China might begin selling off those assets, driving up U.S. interest rates and slowing U.S. growth. The fact that such an action would probably do at least as much damage to the Chinese economy does not guarantee that in the heat of a crisis, Beijing would never attempt it. There is also no assurance that U.S. policymakers won't be swayed by Chinese threats, backing down when they should remain firm. The bottom line is simple: if Washington wants to retain the greatest possible freedom of action, it cannot stay so deeply indebted to its main geopolitical rival.

China remains uncertain whether the United States has the resources and the resolve to back up its brave words.

A revaluation of the yuan would help narrow the U.S.-Chinese trade gap, although by how much is a matter of debate among economists. What seems certain, based on past experience, is that China will make meaningful adjustments only in the face of significant external pressure. In 2005, Beijing permitted an appreciation of its currency after John Snow, who was then U.S. treasury secretary, warned that he would issue a report to Congress accusing China of currency manipulation. Five years later, the Chinese authorities again allowed the yuan's value to creep upward, this time shortly before a G-20 summit at which other nations were preparing to criticize the country's exchange-rate policy.

Although the overall trade balance with China is a cause for concern, the high-tech sector deserves U.S. policymakers' particular attention. Since the end of the Cold War, Washington has wrestled with the question of whether it should maintain export controls on technologies that potential enemies could use to develop sophisticated weapons of their own. Because of the global diffusion of technological expertise, some in the business and scientific communities believe that such controls are at best useless and at worst harmful to U.S. competitiveness. Even skeptics acknowledge, however, that the United

States has advantages in areas such as stealth and encryption technologies that it can, and should, still protect through unilateral export controls. Worries about China's growing power could also breathe new life into multilateral control mechanisms. Because other advanced nations in both Europe and Asia fear feeding China's military or enhancing the competitiveness of its aerospace and telecommunications industries, they might now be more willing to cooperate in restricting exports of certain dual-use technologies to China.

At best, export controls can address only one piece of a much larger problem. China has a variety of means to gain access to sensitive technologies. Its scientific and industrial espionage is extensive. The country uses both time-honored techniques, involving simple bribery and theft, and newer, often more effective cyber-methods. And in addition to slipping past firewalls, China now has the option of simply walking in through the front door by buying into foreign companies or selling them products that could give China access to technology and information. A Chinese firm that sold next-generation telephone switching equipment to U.S. service providers could let China's intelligence services listen in on sensitive U.S. communications. Similarly, Chinese-owned firms could sabotage or modify microchips that end up in computers, communications systems, or even weaponry. The United States and its advanced industrial allies need to more closely monitor the high-tech supply chain and to regulate investment in their economies by Chinese firms, some of which have ties to Beijing and the People's Liberation Army.

STAND YOUR GROUND

The primary objection to recalibrating U.S. policy along the lines suggested here is that it would create a self-fulfilling prophecy, strengthening the hand of Beijing's so-called hard-liners while undercutting its reform-minded liberals. The notion that there are good guys among those contending for power in China and that a nonconfrontational approach would favor them has intuitive appeal. At this point, however, the opposite is at least equally plausible. If Washington reverts to a softer stance, Beijing's hard-liners could try to take the credit. They might argue that the change was a direct result of their tough policies, including the sustained military buildup they have long championed.

It would be dangerous for American policymakers to try to shape an intraparty competition that they do not fully understand. This does not mean that China's political evolution is a matter of indifference; far from it. But any outside power's influence over the outcome will be indirect and long term. Democratic countries should continue to support the growth of civil society in China, promote the freest possible flow of ideas into and inside China, and speak out in defense of those who take risks for real reform.

At least for the moment, the trend lines in Asia are moving in unfavorable directions. Four years after the global financial meltdown, the United States is still mired in recession and hobbled by political deadlock. China's economy, too, shows signs of slowing, but the country continues to grow richer and stronger while the CCP remains in power. In the not-too-distant future, however, the situation is likely to reverse. The United States and the other advanced industrial democracies will bounce back from their present difficulties. A CCP-led China might not. China will have to cope with the combined effects of unchecked corruption, a rapidly aging population, and an investment-driven economic model that most experts believe to be unsustainable. China's ability to engage in a strategic rivalry is likely to diminish, even as the ability of the United States and its allies increases. The challenge facing U.S. policymakers is how best to navigate the intervening period of uncertainty and constraint.

China's recent behavior may prove helpful in this regard. Beijing's truculence has caused deep anxiety among many of China's neighbors, making them more inclined than ever to work together to balance the Asian giant. For this reason, other governments in the region have generally welcomed the more muscular rhetoric that has been emanating from Washington in recent months. But they remain uncertain whether the United States will have the resources and the resolve to back up its brave words. Whoever is elected president in November will have to take steps to dispel these doubts. Developing and funding a credible strategy for countering China's buildup and adopting a tougher approach to economic engagement will both be important. So, too, will be continuing to stand firm on issues of principle. As it engages and balances Beijing, the United States must do what it can to encourage what George Kennan might have termed the "gradual mellowing" of Chinese power.

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Myanmar

NO TURNING BACK

Myanmar is undergoing a transformation, the like of which has been unseen before. Reformer President Thein Sein is the man at the helm of a process that has taken the whole world by surprise.

The reformist leader of Myanmar's future has arrived on the scene in a major way. After more than twenty-five years of isolation and sanctions the country has burst onto the international stage, catching headlines around the globe. In the year since he became premier of this strategically important Southeast Asian country, President U Thein Sein has radically changed the direction of the nation, turning back the clock on decades of military rule and vowing to resurrect Myanmar's former glory.

Once considered the 'rice bowl' of Southeast Asia, Myanmar is rising once again as market reforms championed by President U Thein Sein take hold and industries such as, energy, agriculture and even consumer goods enjoy the benefits of new investment and trade liberalization. At the same time, the country's leadership has unleashed a wave of political forms, granting amnesty to political prisoners, and welcoming democracy activist Aung San Suu Kyi back to public and political life. The Nobel laureate now heads the opposition in parliament after participating in what were arguably the country's first ever free and fair elections. "The first thing is to make our country peaceful and tranquil and the second thing is to develop our people and economy and make both prosper," President U Thein Sein said during an exclusive interview for this report. "Peace and economic development are two things that are basic necessary conditions for our country today," he added.

> "We're very excited by what lies ahead, and we're very supportive of President U Thein Sein's economic and political reforms."
>
> Hillary Clinton, U.S. Secretary of State

Secretary of State Hillary Clinton congratulated Myanmar's President during a recent meeting in Cambodia. "We're very excited by what lies ahead, and we're very supportive of President U Thein Sein's economic and political reforms," she said.

The President's economic targets include tripling GDP per capita by 2016 and reducing poverty from 26 percent to 16 percent, aggressive but achievable goals if the country maintains its current reform trajectory.

Indeed, the country appears poised for economic take-off. Analysts predict growth could be as high as 8.8 percent for 2012-13, an astounding turnaround after flat-lining during the past decade. Such an impressive performance could place the country on a faster paced growth trajectory than its biggest trading partner, China.

With about 60 million people in Myanmar and a GDP of about USD$50 billion, compared to neighboring Thailand which has about 67 million people and a GDP of USD$348 billion, such growth rates bring with them the potential to lift millions out of abject poverty. Many hope structural changes in the economy will help return Myanmar to the days when the country was one of the most prosperous and open societies in the region.

President U Thein Sein has been at the helm of the biggest shifts taking place in Myanmar today. In April 2012 the president took one of the greatest steps toward financial reform by

floating the country's currency, the kyat, effectively ending a complex two-tier currency system.

Now that the kyat has floated, the books of state-owned enterprises and government institutions will reflect more realistic figures. These reforms are expected to have the largest impact on ending market distortions and improving transparency for foreign investors as they pour into the country in the coming months.

Financial reform has been further enhanced by major changes to the country's new investment laws, the drafting of which has kick-started a huge amount of activity from business people eyeing the country's big consumer population, affordable labor costs and abundant natural resources.

Key takeaways from the new set of laws governing foreign direct investment (FDI) include a five-year tax exemption, with an extension of three years if certain local employment criteria are met, and vitally important land-use terms, legal structures and incentives for foreign companies.

Manufacturing companies will benefit from an additional break of 50 percent on profits from exports provided they are quickly re-invested in the company. Other revisions to existing investment laws include new permissions for foreigners to lease land from private citizens, giving locals a bigger stake in Myanmar's growth story.

These new measures make Myanmar one of the most attractive places to grow a business in Southeast Asia in terms of incentives for investors.

That commitment to finding the right kind of investment is key for fellow reformer, U Soe Thane, minister of industry, and one of President Thein Sein's closest allies.

Minister U Soe Thane recently said, "We are giving top priority to labor intensive FDI so that we can create jobs for our people."

"We also want investment in our agro-based industry because we have a lot of good farming land and there is a lot of potential to develop the sector," he added.

President U Thein Sein echoed the same sentiment saying, "I would like to invite low technology industries and factories to invest in our country to create opportunities for our people."

Meanwhile, the country is experiencing an explosion of foreign interest, especially in mining, power and oil and gas. According to the Myanmar Investment Commission Myanmar should benefit from at least USD$4 billion by April next year.

Key to the country's ambitious industrialization efforts, eighteen special economic zones have already been designated and technocrats are currently framing legislation for their development.

While Myanmar is rich in both hydrocarbons and hydropower, one of the biggest challenges facing investors is a shortage of electricity. Minister U Soe Thane recognizes this as an urgent priority saying that this has both political implications at home and "could also discourage potential investment."

Indeed, the government has redoubled it efforts to meet the demand for power after protestors took to the street for the first time since 2007 to speak out against widespread power outages.

Myanmar President Thein Sein and U.S. Secretary of State Hillary Clinton

As a result the country has committed to tapping new gas reserves for domestic use and is calling on new found international support to better manage energy resources to power the country's industrial boom in the next decade.

"New gas discoveries made after 2013 will not be sold to foreign countries but used to meet domestic requirements," said Minister U Soe Thane.

As the country turns a corner, the country will have several opportunities to bask in the spotlight. Myanmar is gearing up to host the Southeast Games in 2013, chair the Association of Southeast Asian Nations (ASEAN) Secretariat in 2014 and host the prestigious World Economic Forum next year.

Perhaps most significantly, Myanmar now appears better positioned to benefit from economic integration in the ASEAN single market community by 2015. Political sanctions by the European Union and United States, which have recently come down largely thanks to President Thein Sein's reform agenda, which reduces drag on the economic integration process and will make it easier for Myanmar to tap the regional export market for its semi-precious stones, agriculture products and energy resources.

There is little doubt about the president's conviction in acknowledging the scale of this opportunity.

"Our country lies between South Asia and Southeast Asia... to invest in our country is to invest in a market of billions," President U Thein Sein said.

While much remains to be seen, the world over has acknowledged that Myanmar's government is facing a historic opportunity to jump-start economic development and lift living standards in a country that has too long laid stagnant at the base of two of the world's largest economies in one of the world's fastest growing regions.

With the appropriate macroeconomic reforms, investments in infrastructure and continued pace of financial reform the nation has an opportunity to return to its position as one of the most important economic epicenters of Southeast Asia.

Under the leadership of President U Thein Sein and reformers like Minister U Soe Thane the country has taken tentative steps towards achieving its target of being ASEAN's first "lion economy." As the president has said, there is no turning back.

GOVERNMENT TARGETS SUSTAINABLE DEVELOPMENT LIKE NEVER BEFORE

Perhaps the most striking changes that have taken hold since the end of military rule is the leadership's new-found focus on sustainable development.

Myanmar's new government has taken many by surprise for its willingness to put the well-being of locals and the environment ahead of commercial interests.

In the face of strong domestic protest President U Thein Sein suspended construction of the Chinese-led Myitson dam on the Irrawaddy River in September last year. The move was a blow to China and a wake up call for investors that Myanmar is now serious about environmental protection.

The halt of Myitson is in line with President U Thein Sein's inaugural pledge to give "serious attention" to protecting forests and wildlife, and reducing pollution.

Myanmar has avoided the environmental degradation affecting many fast-growing Asian countries such as Thailand and China partly because of isolation under military rule. The boom in investor interest has raised concerns about the degradation of Myanmar's incredible biodiversity.

> "We cannot be successful in shaping a Myanmar society that is happy, healthy and environmentally friendly on our own."
>
> Win Tun, Myanmar Minister of Environmental Conservation

While geographically situated between China and India, two of the world's biggest and fastest growing economies, Myanmar is also one of the most biodiverse and biologically endowed regions.

Only three countries in the world have more extensive tropical forests: Brazil, India and the Congo. Myanmar is home to 1,099 of Southeast Asia's 1,324 bird species and to extensive coral reefs.

Though the country's historical reputation of endemic corruption and general disregard for the environment raised concerns in the past, the new leadership has experienced a genuine 180 degree shift in mindset.

An indicator of the government's new-found commitment is the creation of the Ministry of Environmental Conservation and Forestry. Myanmar is known as the "home of teak" and one of the world's few natural producers. Over exploitation of this high-value wood has caused a 14 percent reduction in forests in the past thirty-five years. Logging has had a significant impact in Kachin state, whose forests supply Chinese demand. The government explains that this was partially due to sanctions and the need to generate currency although large international syndicates are also involved in illegal trade.

At present, when illegal teak logs enter China and are integrated into the production process, they quickly become "legalized." This means that teak furniture bearing the Made in China stamp may in reality come from illegal Myanmar teak. U Sein Lwin, President of the Myanmar Forest Products and Timber Merchants Association asks for the assistance of the international community to put an end to this practice. "The average yearly value of illegal logging is $200 million from Kachin. To address this issue there must be political will from the parties concerned: the Myanmar government, the Kachin people, Yunan Province (China) and the consumer countries such as the EU and the USA." Settlement of this issue in Kachin could have important political consequences as Kachin separatists may be using illegal timber to finance their activities.

Fortunately the new minister of environmental conservation, U Win Tun, has emerged as one of the country's top champions for environmental protection, reaching out to involve expert groups and civil society.

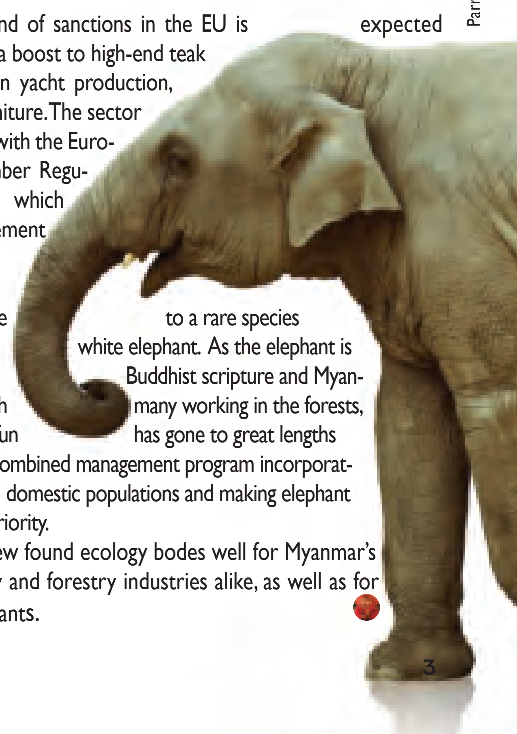
"We cannot be successful in shaping a Myanmar society that is happy, healthy and environmentally friendly on our own. We welcome the participation of local NGOs and experts from different sectors in our activities," Minister U Win Tun recently told local journalists.

Making good on his claims the minister has invited four prominent Myanmar NGOs to help write by-laws and regulations for the recently introduced Environmental Conservation Law.

Among the most urgent issues to be addressed by the ministry is how to sustainably manage the country's teak forests. From the outset the new ministry has worked to reinvigorate reforestation initiatives that both help support local economic development and replenish Myanmar's depleted forests. Communities can now grow their own teak, with a goal of planting one million acres, and the government's monopoly is being rolled back.

"Under the new government we are planning to stop log farming [harvesting] of teak and to promote value added processing by foreign companies. In the near future we will stop selling in log form and focus on value added products," Minister U Win Tun said.

Indeed the end of sanctions in the EU is expected to help provide a boost to high-end teak products used in yacht production, flooring and furniture. The sector aims to comply with the European Union Timber Regulation (EUTR) which requires enforcement by March 2013.



Meanwhile, Myanmar is home to a rare species of endangered white elephant. As the elephant is central to both Buddhist scripture and Myanmar's history, with many working in the forests, Minister U Win Tun has gone to great lengths to implement a combined management program incorporating both wild and domestic populations and making elephant conservation a priority.

Myanmar's new found ecology bodes well for Myanmar's rich biodiversity and forestry industries alike, as well as for her white elephants.

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Situated between the Himalayas, India and mainland Southeast Asia, Myanmar is of one of the world's richest biodiversity hotspots, placing the country's extensive tropical resources alongside those of Brazil, India and the Congo. We are also home to 1,099 of Southeast Asia's 1,324 bird species, and to extensive coral reefs, and virgin rivers.

Ministry of Environmental Conservation & Forestry
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ENERGY

››REFORMS SET TO ADDRESS ENERGY SHORTAGES, FUEL ECONOMIC BOOM

Minister of Energy U Than Htay is the man tasked with addressing Myanmar's critical energy growth and spearheading the revival of this strategically important oil and gas rich state.

As Myanmar rounds the corner on the start of economic and political reforms, the country is still facing tremendously difficult infrastructure challenges, chiefly a shortage of electricity.

In response, Minister U Than Htay has sought to both bolster Myanmar's energy independence and establish new channels of revenue.

The minister is opening up new blocks for exploration and production (E&P), which will create a massive upswing in FDI.

Largely untapped resources of the country's proven oil reserves of 3.2 billion barrels and 11.8 trillion cubic feet of gas have drawn interest from China, India, Russia, Switzerland and in particular Southeast Asia.

> "When we are completely released from the [U.S.] sanctions the economic possibilities we can create will be incredible."

The lifting of sanctions has spiked investor interest as the Ministry of Energy awarded ten onshore oil and gas blocks to eight companies in Myanmar's biggest energy tender in years. As the government readies itself to auction off an additional nine offshore energy blocks a relaxation of U.S. restrictions on energy projects in July has been seen as timely.

"When we are completely released from the [U.S.] sanctions the economic possibilities we can create will be incredible," Minister U Than Htay told us in an exclusive interview for this report.

The minister also noted the risks poised to American companies of being left behind as competitors benefit from a first mover advantage in Myanmar's new energy environment.

"Now is the best time for these companies to become involved in the energy sector in Myanmar," said Minister U Than Htay. "If American E&P companies do not act fast they will miss out. Now is the right time to share in the opportunity we are offering" he added.

In specific figures the country has already benefited from increased interest with natural gas exports totaling USD$3.56 billion in 2011-2012 up by about USD$640 million from USD$2.92 billion in 2009-2010.

Revenues are primarily driven by natural gas from the Yedagon and Yadana gas blocks, though when production comes online from the Shwe and Zawtika gas blocks in 2013, the figures will rise by a further USD$2 billion per annum.

Some of the the United States' biggest corporate names have been chomping at the bit to capitalize on new hydrocarbon opportunities.

> "If American E&P companies do not act fast they will miss out. Now is the right time to share in the opportunity we are offering."
>
> U Than Htay, Myanmar Minister of Energy

Chief among them is energy giant Chevron, which is keen to get in before falling behind global rivals such as France's Total, which has a long history in Myanmar. Chevron already has a stake in the Yadana natural gas project but it has not been able to expand its operations because of the U.S. government-imposed restrictions.

Under the new rules, U.S. companies are now able to form joint ventures with the government owned Myanma Oil and Gas Enterprise (MOGE) providing they adhere to certain criteria.

"We always like to be where there is hydrocarbon potential," Chevron vice chairman George Kirkland recently told the Wall Street Journal on the prospect of investing in Myanmar.

››SOUTHEAST ASIAN NATIONS BET ON MYANMAR'S ENERGY FUTURE

In the meantime oil and gas majors in Southeast Asia are moving quickly to tap opportunities presented by new fields being opened for E&P. When the government opened up ten onshore blocks to foreign investors the winners were mostly Asian with notable stakes for Petronas of Malaysia and Thailand's PTT.

Myanmar supplies about a quarter of Thailand's daily gas consumption, mostly from the Yetagun project where both PTT and Petronas have stakes.

Malaysia was one of the earliest and most vocal advocates for Myanmar's inclusion in the ASEAN group of nations. In particular, Petronas, a state-owned energy giant, specifically has more than two hundred people in the country and is committed to being a good corporate citizen. Notably, Petronas was one of the corporate world's first responders when Cyclone Nargis decimated the delta region in 2008, dispatching relief goods and medical supplies.

The company's recent investments in two onshore blocks support both its international strategy and its commitment to the Myanmar market.

"We have been [in Myanmar] over the last twenty-two years," Petronas CEO Datuk Shamsul Azhar Abbas, recently told The Edge, a Malaysian newspaper. He pointed out that "when the company decided to go international, Myanmar was the first country we chose."

Though this year marks the company's first foray into onshore production Petronas has a long-term stake in the offshore Yetagun project, where it produces the gas equivalent of 77,000 barrels of oil per day.

The Yetagun project sits on a gas reserve of an estimated 3.2 trillion cubic feet. But even as natural gas production has quadrupled in the last decade, much of Myanmar's waters remain unexplored and some analysts have suggested that the proven gas reserves of the BP Statistical Review may have been underestimated.

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MYANMAR'S ENERGY CRUSADER

While global oil and gas majors like Total, Chevron and Petronas tend to dominate headlines, one local company, and its founder, U Moe Myint, warrant special mention not only for their very interesting back-story, but for what they stand for.

Once the flight planner and pilot for Myanmar's presidential flights, U Moe Myint left the company and the country in 1987, disappointed by its systems and institutions.

After spending time in the United States partnering on a successful aircraft parts and equipment supply company, U Moe Myint returned to Myanmar in 1989 to establish Myint & Associates, the first local enterprise to act as a service provider to foreign oil companies investing in and exploring Myanmar's oil and gas resources. In 1996, U Moe Myint founded MPRL E&P, an exploration and production company, currently the flagship enterprise of his group of companies.

Today, MPRL E&P and the group of companies employ more than 3,000 direct staff and an additional 10,000 through subcontracts. Myint & Associates currently provides various oil field services to major oil and gas clients including Total, Daewoo, PTTEP, and Petronas, and to their main contractors. Moreover, both MPRL E&P and Myint & Associates are recognized as among the best-run companies in Myanmar, internationals included. U Moe Myint also oversees ASIA Drilling Pte Ltd., a drilling company, which owns and contracts two onshore rigs to oil and gas operators in the Southeast Asian region.

> "We may be a small independent compared to the majors but one of my proudest achievements was to drill this offshore well in deep waters, incident free, at a substantially lower cost and well ahead of schedule with our own trained and dedicated personnel."
>
> U Moe Myint, Chairman and CEO, MPRL E&P

The self-made energy tycoon has stayed ahead of competitors and gained the confidence of the world's largest energy companies by managing his business professionally based on the principles of ethics and transparency. MPRL E&P is also known for continuously investing in technology and in the professional growth of its employees.

What is perhaps most amazing about the meteoric rise of U Moe Myint, one of Myanmar's most accomplished entrepreneurs, is that it has been without the help of cronyism or corrupt practices.

MPRL E&P continues to register success as one of Myanmar's shining examples and proof that high integrity and corruption free businesses can succeed here without the help of institutionalized cronyism.

In April 2012, MPRL E&P announced a gas discovery in an offshore field it is licensed to explore south of Daewoo's Shwe field, where over 5 trillion cubic feet of gas are soon to be tapped and piped to China.

The discovery, which was drilled using a semi-submersible offshore drilling rig contracted from Korean National Oil Corporation, is "receiving a lot of interest from oil majors and investment groups," said U Moe Myint.

In an exclusive interview for this report, U Moe Myint said the company has plans in the explored area to, "reprocess and shoot additional seismic data in order to further enhance the prospectivity of the block."

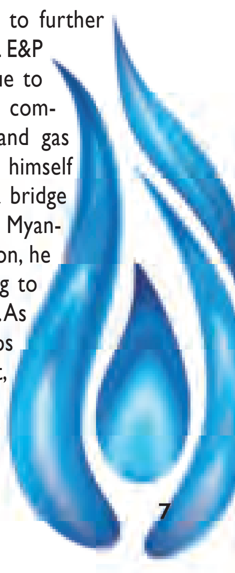
"We may be a small independent compared to the majors but one of my proudest achievements was to drill this offshore well in deep waters, incident free, at a substantially lower cost and well ahead of schedule with our own trained and dedicated personnel" U Moe Myint pointed out.

"Our success will de-risk at least half a dozen similarly stacked anomalies in a six hundred kilometer squared area covered by MPRL E&P as well as in adjacent blocks," he added.

U Moe Myint also continues to run Myint & Associates, his original enterprise. Today Myint & Associates is Myanmar's premium specialist oil and gas field service provider. It is the largest catering contractor both onshore and offshore, specializing in manpower supply, logistics, and construction as well as agency and representation.

According to a U.S. Embassy cable leaked by WikiLeaks, most oil majors in the country regard his service company as the most reliable oil field service contractor. U Moe Myint says this is because he understands the way international companies want to do business and, of course, having run a successful American business, he speaks their language.

As Myanmar continues to open its doors to further energy investment, U Moe Myint and the MPRL E&P group of companies will undoubtedly continue to be a partner of preference for those foreign companies potentially pouring billions into oil and gas exploration and development. U Moe Myint himself may also have an important role to play as a bridge between foreign investors and resource rich Myanmar. As perhaps Myanmar's most ethical tycoon, he remains a role model for a country struggling to overcome a legacy of corruption and cronyism. As the country embarks on a new voyage, perhaps it is with the help of people like U Moe Myint, a passionate yachtsman and president of the Myanmar Yachting Federation, that Myanmar will sail into much happier waters.



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TOURISM

>>WHERE ALL THAT GLITTERS IS GOLD

Myanmar's return to the international fold has been accompanied by an unparalleled explosion in tourist arrivals. With many Yangon hotels operating at full capacity, hoteliers are flocking to the commercial capital to meet demand. Myanmar saw 22 percent growth in arrivals in 2011, equating to 365,000 visitors. This growth trend has continued at an even faster rate in 2012, as international sanctions were dropped and visitors rushed to see one of Asia's rare unknown gems. According to U Htay Aung, Myanmar's deputy minister of hotels and tourism, the number of foreigners flying into Yangon and Mandalay airports shot up by a staggering 50 percent between January and June 2012 alone. Combine this with record growth in the region—13 percent—and one can see why hoteliers are struggling to meet demand.

This explosion in interest is positioning Myanmar as one of the leading destinations in Southeast Asia. Analysts expect the trend to continue: the Union of Myanmar Travel Association predicts one million visitors will fly into Yangon by 2015. Incidentally, Yangon is also one of the finest examples of Colonial architecture in the world. While many Asian cities erased much of their history by creating shiny new metropolises, Myanmar's isolation from the rest of the world has meant that Yangon has shades of an Asian Havana. Recognizing this, the president is keen to conserve the capital's historical legacy, and the Yangon Heritage Trust has been set up to protect its rich architectural heritage.

Outside of Yangon, and beyond the golden spires of the country's thousands of gleaming pagodas, the country's offering is diverse to say the least. Its tropical forest, the world's fourth most extensive, is also one of the world's most biodiverse and home to many rare species of flora and fauna. The country's eclectic geography includes impressive snow-capped mountains, unspoiled natural reserves, and 3,000 kilometers of unexplored beaches snaking along the Bay of Bengal and the Andaman Sea. Archaeological wonders abound in the ancient cities of Mruak-U, Bagan, and Mandalay, which famously inspired Orwell, Kipling, and others.

As Deputy Minister U Htay Aung said, Myanmar is learning from other countries to "develop its tourism systematically . . . in a balanced manner." A slow approach is preferred. "We need to be cautious when we try to develop our tourism. It should minimize the negative impact and maximize the benefit," he added.

> "We need to be cautious when we try to develop our tourism. It should minimize the negative impact and maximize the benefit."
>
> U Htay Aung
>
> Myanmar Deputy Minister of Hotels and Tourism

TRANSPORT

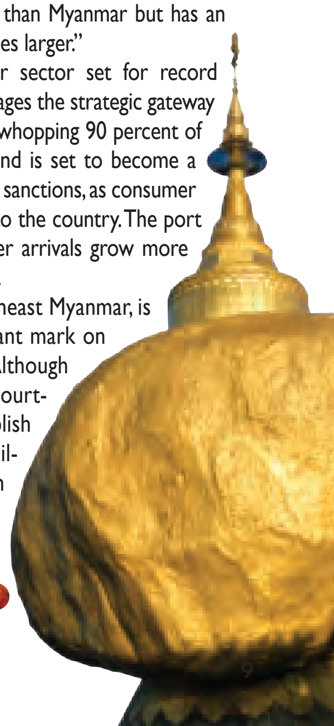
>>MYANMAR TAKES OFF

Strategically located between two of the world's most dynamic economies, India and China, Myanmar is at the footsteps of a market of billions. Straddling the Bay of Bengal, Myanmar offers both markets an opportunity to develop their hinterlands while creating important inter-linkages to these giant markets. As Myanmar triples GDP by 2020, a rapid expansion of the aviation and maritime sectors is planned to capitalize on geographic advantages. U Nyan Htun Aung, Myanmar's minister of transport tells us "the country will have one of the world's fastest growing aviation sectors over the next decade." Following last year's 30% increase in air traffic, it is estimated that air travel will enjoy 25 percent growth per annum, catapulting the country into the ranks of the world's fastest growing aviation sectors. After a record 2.5 million passengers passed through Yangon Airport in 2011-2012, a new international and industrial airport in Yangon is being planned with a price tag of US$500 million to $600 million. Foreign airlines are queuing up to open new routes, with Qatar Airlines and Vietnam Airlines amongst the first to launch new flights. A recent report by CAPA, Global Aviation Consultants, explains why this market is so attractive, "Given the huge potential size of the Myanmar market, the recent growth represents just the tip of the iceberg... Malaysia has 20 million fewer people than Myanmar but has an aviation market which is nearly 20 times larger."

> "The country will have one of the world's fastest growing aviation sectors over the next decade."
>
> U Nyan Htun Aung, Myanmar Minister of Transport

Maritime transportation is another sector set for record growth. Myanma Ports Authority manages the strategic gateway of Yangon Port, which accounts for a whopping 90 percent of the country's imports and exports, and is set to become a major beneficiary after the removal of sanctions, as consumer goods and capital machinery flood into the country. The port has also seen international ocean-liner arrivals grow more than 50 percent over the past decade.

The Dawei Deep Sea Port, in southeast Myanmar, is a project that could make a significant mark on Southeast Asia's inter-connectivity. Although still being formalized, the project is courting international investment to establish an industrial zone worth US$50 billion, and handling some 200 million tons of cargo per annum. The port is expected to spark development in northern Thailand and make it easier to bring goods to market.



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The Other Russia

Discontent Grows in the Hinterlands

Mikhail Dmitriev and Daniel Treisman

With their roving camps, human chains, and white ribbons, the antigovernment protesters who have filled Moscow's streets since Russia's disputed legislative elections last December have shaken the old certainties about politics in the Putin era. More than any other event since President Vladimir Putin's rise to power 12 years ago, the protests have put the Kremlin on the defensive.

Yet the urban activists who have appeared on the front pages of newspapers around the world constitute at most a tiny fraction of the Russian population—a few hundred thousand people in a country of 143 million. The big question that will determine Russia's political future is how much support this politicized vanguard can hope for from the quiet majority that lives outside Moscow and St. Petersburg.

Few observers—either in Russia's metropolises or abroad—seem to understand this group very well. The stereotype of the provincial Russian is of a politically apathetic conformist who is resentful of pampered Muscovites, socially conservative, generally pro-Putin, suspicious of the West, and nostalgic for Soviet order.

Yet thanks to new data, a more nuanced picture of the Russian mainstream is starting to emerge. Between March and May, the

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Mikhail Dmitriev is President of the Moscow-based Center for Strategic Research. He was First Deputy Minister of Economic Development and Trade in the Russian government in 2000–2004, First Deputy Minister of Labor and Social Development in 1997–98, and a member of the Russian parliament in 1990–93. Daniel Treisman is Professor of Political Science at the University of California, Los Angeles, and the author of *The Return: Russia's Journey From Gorbachev to Medvedev*.

Moscow-based Center for Strategic Research (CSR) conducted 62 focus groups with residents of 16 Russian regions, stretching from Kaliningrad, on the Polish border, to the town of Novotroitsk, about 1.5 miles from Kazakhstan. Focus groups were carried out in Moscow and one other large city, Yekaterinburg, in the Urals; in medium-sized cities, including Vladimir, Tolyatti, and Astrakhan; and in small towns, such as Chernogolovka, in the Moscow region. The standard size of the focus groups was ten individuals. For comparison, one focus group consisted of Muscovites who had taken part in recent protests. Discussion leaders asked the participants, who varied in age, gender, education, and social and economic status, about their political values, policy concerns, and assessments of current and potential leaders.

The answers were surprising. Yes, Russians outside Moscow and St. Petersburg have no appetite for the noisy street politics and abstract slogans of their big-city counterparts. But they are far from content with the current political system, which they see as hopelessly corrupt and inept at providing basic services. Their support for Putin grows thinner by the month, and a major economic crisis could quite easily provoke them into protests on a massive scale.

Although the concerns and cultures of Russia's metropolises and its provinces differ, there is no contradiction between the urban activists' dreams of greater freedom and democracy and mainstream Russians' desires for honest police officers and well-run health clinics. Indeed, a more accountable state would almost certainly be a more effective one. The ultimate challenge for Russia's liberal activists is to forge these two strands of dissatisfaction into a united coalition for change. And the top priority for the Kremlin is to prevent that from happening.

NOT SO DIFFERENT AFTER ALL

In some regards, the survey's findings confirm a sharp divide between the discontented metropolitan elites and the rest of the country. The focus-group participants (outside of those in the group put together for comparison) showed little empathy for the anti-government protesters and even less desire to join them. The celebritystudded Moscow demonstrations aroused not so much hostility as sheer incomprehension.

Whether or not the participants viewed last December's parliamentary elections and March's presidential vote as fair, they overwhelmingly accepted the results as final. At the same time, they were strongly averse to any kind of violent or revolutionary challenges to the regime. Their responses help explain why the protests against ballot stuffing and other electoral irregularities have not spread to the rest of the country.

All this is consistent with other recent polls. According to a survey conducted in March by the respected Levada Center, 52 percent of Russians opposed the demonstrations, compared with 32 percent that supported them. Only eight percent said that they were willing to march in one. Fifty-nine percent of the population surveyed accepted the results of the parliamentary elections, whereas only 21 percent wanted the government to annul them and call new elections.

Russians outside Moscow and St. Petersburg are far from content with the current political system.

Still, like the liberal activists, Russians from other parts of the social spectrum exhibit a powerful desire for change. But their focus is quite different. Whereas the Moscow crowds have rallied behind abstract concepts, such as fairness and democracy, much of the rest of the country is fiercely nonideological and cares far more about concrete, local issues. Across different regions and social classes, Russians are most concerned with the state's dwindling ability to provide essential services, such as health care, education, housing, personal security, and effective courts.

In a country with 39 million pensioners and 18 million war veterans, disabled people, and other recipients of state benefits, it should come as no surprise that the population demands a robust welfare state. What is striking—and new—is the depth of skepticism among ordinary Russians that national politicians can provide health care, education, and other services effectively, even by showering government agencies with money. Instead, those in the provinces concentrate what hope they still have on local initiatives. Even denunciations of corruption struck most of the focus-group participants as demagoguery if they were not linked to specific cases and practical actions. "In our country, the struggle against corruption is a scourge," lamented one 46-year-old male from Dzerzhinsk. "We need to get rid of all these corrupt networks right away. But what can one say about a global struggle when you can't drive because the road is full of potholes?"

Although averse to revolutionary shocks, most of the focus-group participants indicated that they would be more than glad to bid goodbye to the familiar faces that have ruled them for the last 12 years. "We need to change this team completely, down to the roots," insisted one 46-year-old male from Tolyatti. "You get tired of all these guys who just stay in the Duma for ten years, with no visible action," explained a 46-year-old male from Vladimir.

Indeed, the erosion of support for Putin, Prime Minister Dmitry Medvedev, and their party, United Russia, is almost as significant among provincial Russians as among the big-city elites. And the discontent runs deeper than the slow decline in the president's approval rating—64 percent in June, down from an all-time high of 88 percent in 2008, according to the Levada Center—would indicate. This comes through most vividly in the changing adjectives that poll respondents use to describe the commander in chief. Asked by the Levada Center in April about Putin's "strong sides," only 39 percent characterized him as "businesslike, active, energetic," down from 62 percent in February 2008; 18 percent said he was "intelligent, cultured," down from 43 percent; and only seven percent considered him "honest, decent, uncorrupted," down from 24 percent. Answering another question, only 11 percent said they were confident that Putin had never abused his power.

The focus groups revealed the Putin brand to be exhausted nationwide. Although pockets of staunch supporters can still be found, they are increasingly marginal. Even those who said they voted for Putin in the last election most often explained their choice by pointing to the lack of other acceptable candidates. Putin and Medvedev now strike many Russians as atavistic. Putin, said one 43-year-old Moscow woman, represented "some sort of phase that has passed." Or as one 46-year-old man from the town of Chernogolovka summed it up, "People have a tendency to deteriorate, especially in high posts."

REUTERS / DENIS SINYAKOV

Babushka's got the blues: in the village of Novomuslyumovo, in the Urals, November 2010

To explore what today's Russians are looking for in a leader, the CSR played participants short videos of several young politicians giving speeches. Again, the results suggested that Russians hunger for nonideological problem solvers. The ideal candidate, whether for president, governor, or local mayor, would be a man in his 40s with administrative experience, a record of concrete achievements, and a precise, feasible program that addressed the issues most important to voters. Extravagant or abstract rhetoric aroused only impatience.

BECOMING MODERN

SINCE THE end of communist rule, Russian politics has been defined by the relationship between two Russias, the first made up of modernizing metropolises and resource-rich outposts, and the second comprising the lagging provinces. Economically, much of Russia remains dependent on government transfers. Nine of the country's 83 regions together produce more than half the country's GDP. The rest limp along. In 2010, 41 of the regions received more in federal aid than the combined net profits of all their local enterprises. After the outbreak of the global financial crisis, between 2007 and 2010, annual federal transfers to the regions and extrabudgetary funds, such as the pension and social insurance funds, leapt from 5.7 percent to 9.2 percent of GDP—an increase of $58 billion.

Redistribution—from rich to poor regions and from taxpayers to the recipients of public assistance—has been central to more than just the country's economy. Since 1991, it has also been crucial to winning elections. Western-style democrats and economic liberals, whose strength lies in the cities, cannot win without reaching out to those who do not share their views. Even in the relatively fair votes of the early 1990s, parties that favored economic and political reform never attracted more than 35 percent of the vote (and usually received far less). Calls for fiscal austerity and equal opportunity failed to resonate with those who saw few opportunities in their depressed neighborhoods.

Russians realize that repairing the state will take more than just throwing money at corrupt bureaucrats.

To succeed, presidential candidates from the ranks of the urban elite have had to show that they understand the needs and fears of the provinces. Boris Yeltsin perfected this balancing act, simultaneously championing the idea of economic freedom and showering the regions with largess. His thick Urals accent and demeanor of a regional party chief played better with Siberian audiences than with the Moscow intelligentsia. Putin, even against the backdrop of an economic boom, also had to reconcile orthodox macroeconomics with fiscal handouts to the hinterlands. The so-called tandem of Medvedev and Putin was conceived in part to bridge the gap between the two Russias through a division of labor. Medvedev, iPhone in hand, was supposed to bond with the liberal modernizers. Putin, with his earthy aphorisms, jibes at the West, and macho stunts—driving across Siberia in a Lada, for instance, or riding horses bare-chested—aimed to tap into the culture of the provinces.

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Yet the CSR focus groups suggest that something fundamental is changing. Russians, whether in the provinces or in the more prosperous cities, no longer seem impressed by promises to redistribute the country's oil wealth. In part, the pledges of smooth-talking politicians have lost their credibility. "We're already full of these promises," one 51-year-old Yaroslavl woman complained. "Now, they promise everything, but there's obviously no truth in this." At the same time, Russians realize that repairing the state will take more than just throwing money at problems and that giving more funds to corrupt and inefficient bureaucrats may even make things worse. "The money runs away into the sand," explained one 48-year-old Yekaterinburg male.

Nationalist rhetoric also failed to resonate with the focus groups, probably because it triggered anxiety about violence and instability. (The project did not include regions near the North Caucasus, where chauvinism might have proved stronger.) In Vladimir, some participants took umbrage at a video clip of the nationalist activist Konstantin Krylov. "There's a rather fine line in what he says between peaceful revolution and revolution with blood; sooner or later, someone will cross this border," said one 53-year-old woman. "It's past time that we understand that Russia is not just for [ethnic] Russians," a 39-year-old man insisted. Polarizing events, such as a terrorist attack blamed on Chechens or a local ethnic riot, could certainly provoke anti-immigrant or antiminority clashes. But ordinary Russians seem sensitive to the dangers.

To be sure, Russians have hardly forsworn populism for good, and the participants did tend to favor increases in military spending to restore the army's strength. Suspicion of the West was one area in which Putin's rhetoric struck a chord with the focus groups. Still, their impatience with nationalist and leftist slogans is consonant with other signs that a shift in values is under way in Russia, and not just among the metropolitan elite.

As the political analyst Kirill Rogov notes, such a value shift would be Russia's third since 1991. First came the burst of enthusiasm for Western-style democracy and markets after the collapse of the Soviet Union. Then, reacting to the chaotic change of the 1990s, Russians began to show a preference for centralization, hierarchy, and state control. Disappointment with Putin's ineffective and corrupt top-down governance is now pushing Russia back toward a desire for more open and less intrusive leadership.

Although still less than universal, this new sensibility comes through in Levada Center opinion polls. Since 2000, the percentage of respondents who said that a political opposition is necessary in Russia has risen from 47 percent to 72 percent. Asked last March whether the president and the government should "more tightly control the economy and political life" or "give people freedom to go about their business so long as they do not violate the law," 48 percent of respondents chose the second option, up from 33 percent in 2001. The proportion favoring tighter control dipped from 53 percent to 35 percent.

This shift in public opinion tracks with Russia's recent economic modernization. In the decade before the global financial crisis, real household incomes rose by 140 percent. The average monthly wage, adjusted for purchasing power parity, already exceeds $1,000. This improvement has spread broadly throughout the population. The proportion of Russians living in poverty, currently defined as having a per-person income of under $10.80 a day, fell from 29 percent in 2000 to 13 percent in 2011. By the World Bank's definition—an income of less than $2 a day—the number qualifying as poor would be much lower.

A technological revolution has also occurred in recent years. The share of the population in Russia with cell phones already far surpasses those in France, Japan, and the United States. Today, 60 percent of households, including 46 percent in the countryside, have personal computers, up from 25 percent just six years ago. Finance has also penetrated Russian life: Individuals enjoy unprecedented access to debit cards and automated teller machines. Twenty-two percent of household consumption is now financed by loans from banks, compared with only 15 percent a year ago.

With the rise in incomes, Russia has become a genuine consumer society, and not just in the metropolises. For roughly the first 15 years after the end of communism, the country's consumer markets were highly fragmented. Local producers dominated in each of the regions, limiting access to the national market. But the recent boom in

REUTERS / DENIS SINYAKOV

The glasnost ceiling: Pussy Riot, a feminist, anti-Putin punk band, protesting in Moscow, January 2012

Russia's retail trade has brought chain stores even to small cities in remote regions. The global entertainment industry is also breaking down barriers. In Novotroitsk, a one-company town built around a steel mill and close to the border with Kazakhstan, the visiting CSR sociologists were surprised to find a 3-D movie theater playing *Wrath of the Titans* in the week of its global premiere.

In other countries, such dramatic spurts of modernization have generally been accompanied by a shift in the public's concerns from economic survival to what the political scientist Ronald Inglehart calls "self-expression values." No longer solely preoccupied by the need to feed and clothe their families, individuals start to care more about such issues as environmental protection, gender equality, freedom of expression, and, ultimately, political participation. Russia's big-city liberals are walking illustrations of this trend.

Most provincial Russians, and also many in the cities, have not yet reached this point. They remain more traditional in their social values and lifestyle preferences. But at the same time, they have clearly moved beyond the daily struggle for existence in which all that matters is the monthly paycheck and political support can be bought quite easily. Russians outside the elite do not yet clamor to participate in the state, but they want a state that works.

If this value shift is indeed what is occurring in Russia, it might explain a recent puzzling change in the drivers of Russian public opinion. For much of the previous two decades, the president's approval rating rose and fell in line with the public's perception of the country's economic performance. Since January 2011, however, the two have become delinked: economic sentiment has been more or less flat, but support for Putin and Medvedev has fallen substantially.

THE EMPIRE STRIKES BACK

In combating the sudden surge of protests, the Kremlin has sought to build a firewall between the metropolitan activists and their provincial compatriots. The Putin team has already lost the urban middle class, and Medvedev's demotion from president suggests that Putin recognizes this fact. Now, Putin is determined to stop the erosion of confidence in his rule from spreading.

To do this, the president has turned to two familiar tactics. For starters, he has stepped up patronage; despite the lack of any real competition in the presidential election, Putin made pledges in the run-up to the vote that have been priced at $160 billion. He committed to raise pensions and wages for doctors and teachers and to provide bonuses for mothers who give birth to a third child. In January, he doubled military salaries.

Putin's second tactic has been to exploit perceived cultural divisions between the big-city liberals and the more traditional, blue-collar provinces. During Putin's annual televised call-in show last December, a foreman from a tank factory in the Urals, Igor Kholmanskikh, offered to bring a gang of assembly-line workers to Moscow to straighten out the protesters. Putin had the worker flown around the country in a business jet to appear at campaign events and, after the election, appointed him as the Kremlin's envoy to the Urals Federal District, despite his total lack of administrative experience.

Since the demonstrations began, Kremlin spokespeople have sought to portray them as an amusement for pampered Muscovites, disreputable celebrities, unpopular minority groups, and violent anarchists. They pounced with evident relish on the case of Pussy Riot, a feminist collective and punk-rock band whose members charged into the Cathedral of Christ the Savior last February wearing brightly colored masks, stormed the altar, and performed a wild dance. A video of the incident, set to the tune of a song beseeching the Virgin Mary to "chase Putin away," later spread on the Internet. Three of the group's members have been arrested and threatened with seven-year prison terms for hooliganism. Patriarch Kirill, the head of the Russian Orthodox Church, denounced the action as "blasphemous" and fumed that "the Devil has laughed at all of us."

Had the Kremlin's spin doctors concocted a fake video to shock ordinary Russians and discredit the capital's youth, they could hardly have produced something more effective. In April, 47 percent of respondents to a Levada Center poll who had heard of Pussy Riot agreed that a seven-year jail term would be appropriate, compared with 42 percent who considered that excessive. Only ten percent opposed any sort of criminal punishment. Meanwhile, United Russia has also launched a well-publicized campaign against gay rights activists, promoting local laws around the country to punish "pro-homosexual propaganda." The barely concealed goal is to cast the antigovernment protesters as a cabal of feminist punks, church desecraters, and sexual deviants.

The Kremlin's goal is to cast the antigovernment protesters as a cabal of feminist punks, church desecraters, and sexual deviants.

With United Russia's popularity sinking, efforts by Putin's team to push back against the protests have tended to backfire or simply fail. Attempts to co-opt moderates from the opposition or even more neutral circles have found few takers. To form a government of new faces last May, Putin had to dig deep into the ranks of ministerial deputies, and the lineup was widely panned for featuring so many familiar insiders and second-rank bureaucrats. Some whom Putin invited declined to serve. His appointment of Sergei Neverov, a Soviet-style operative, to the second-highest post in United Russia seemed almost deliberately perverse. Neverov proved to be one of the most unappealing potential leaders in the CSR focus groups.

In parallel, Putin has ordered a harsher response to the demonstrations themselves, arresting more people and increasing the fines for protesters. But these methods, too, seem as likely to enrage the opposition as to intimidate it. The sociologist Olga Kryshtanovskaya interviewed 112 participants at a recent Moscow protest and found that 90 percent said they would continue to take part in such actions even if the fines and punishments were dramatically increased. The CSR's focus group with Moscow demonstrators found that police violence also strengthened their resolve. As one 46-year-old college-educated Muscovite explained:

> We were all very afraid of how the police would beat us. It turned out to be nothing terrible. A few black eyes, bruises, but everyone was still alive. In that moment, they killed the fear of the police in many tens of thousands of people. They moved the boundary of danger people feel in the presence of the security forces. I'll go again; it doesn't bother me now.

On June 11, police units searched the apartments of prominent opposition leaders, turning them upside down and confiscating numerous items. Apparently intended to intimidate, these actions had the opposite effect, resulting in an impressive turnout of about 50,000 people for a protest march held the next day, despite torrential rain and a long holiday weekend.

ALL POLITICS IS LOCAL

OF COURSE, the most effective way for Putin's government to short-circuit rising discontent would be to make the state more responsive and efficient. To the millions of Russians angered by potholes in the roads or the bribes they must pay to get adequate medical care, the failures of the public sector are ever more glaring. Russia has twice as many doctors per capita and three times as many hospital beds per capita as the United States, but its infant mortality rate is 40 percent higher. Secondary schools in Russia have one teacher per eight pupils, compared with one per 14 in the United States, yet less than one-third of Russians, according to a Levada Center poll, think their children or grandchildren can get a good education. Half say they cannot.

The irony is that the Putin team understands the need for thorough reforms in the public sector. Before the presidential election, at the Kremlin's request, a team of economic experts from two top universities drafted a blueprint for modernizing health care, education, and other state services. But comprised of mostly second-rank technocrats and relying on a venal and obstructionist bureaucracy to implement any changes, the new government has neither the capacity nor the credibility to reform complex institutions that reach into the lives of Russians across nine time zones.

The focus groups revealed that political leaders can generate significant levels of trust only on the local level. If the Russian state is to be rebuilt in a more efficient, less corrupt form, the initiative will have to come from below, from the small set of mayors whose achievements have won them the support of local communities, working together with a burgeoning network of civic groups that has appeared in recent years. Despite numerous obstacles, these groups have organized to defend the rights of car owners, publicize environmental hazards, block unpopular development projects, and assist victims of state brutality.

To the surprise of scholars, who have long bemoaned the lack of a vibrant civil society in Russia, an impressive range of local quality-of-life initiatives have emerged over the last few years. These efforts have included volunteers coordinating on the Internet to fight forest fires, amateur preservationists picketing a proposed skyscraper project in St. Petersburg, and a campaign to block the construction of a superhighway through the wilderness in the Moscow suburb of Khimki.

A program of local reforms designed in partnership with the public is hard to imagine under the current leadership. But the discrediting of the top-down rule of Putin has opened the door for a radical decentralization after he leaves office. Indeed, given the pervasive skepticism that the focus groups revealed, it is hard to see how a future leader could build a national coalition except by appealing to grass-roots activists, respected local officials, and ordinary citizens. A program of returning power to local communities and embracing small-scale experiments in governance could energize a public, in both the cities and the provinces, that is alienated from the stage-managed politics it sees on television. It could also win broad appeal for Putin's successor.

For the moment, however, the volatile standoff continues. In Moscow, the postmodern protesters devise ever more inventive ways to dramatize their resistance, rallying in flash mobs and camping out around the city. With each passing week, the set of administration insiders becomes a little more socially isolated. When a police officer ushers a car with the flashing blue light of officialdom through the crush of traffic, other motorists pound on their horns with undisguised rage.

Outside the big cities, the irritation merely smolders. Serious economic deterioration, prompted perhaps by the collapse of the eurozone, could galvanize the other Russia into action. Clumsy moves by the authorities, such as an attempt to implement much-needed but unpopular economic reforms, might do the same. Demonstrations on a national scale would encourage prominent figures in business, the media, and even law enforcement to distance themselves from the Kremlin. These elites would come to see a change in leadership as their best hope for survival.

Barring an economic downturn or major mistakes, the decay is likely to be slower. But it will take all the current leaders' skill just to manage the day-to-day challenges. Although not yet on the side of the middle-class urbanites, the other Russia is today just barely content to tolerate the status quo.

Minas Gerais : Brazil's innovation state

By Cláudia Costa

Brazil is undoubtedly enjoying an economic boom that has propelled the country onto the global stage that is fueling a strong sense of optimism and confidence among its citizens. It is also managing to diminish, albeit modestly, one of the world's highest rates of inequality.

Brazil is also one of the most promising high-growth markets, with rich natural resources, economic stability and a booming middle class. In addition, it is now on the road to becoming a major global oil exporter with an estimated 50 billion barrels of reserves, and it will shortly host the 2014 World Cup and 2016 Olympics. In 2011, however, Brazil was clouded by government scandals and a euro zone crisis that hit export demand and decreased foreign lending, leading to a slowing growth rate. For 2012, analysts believe the economy will grow less than 2 percent. The Brazilian government still bets on 2.5 percent. In early July, Brazil's Central Bank predicted a fall in the 2012 gross domestic product (GDP) from 2.18 percent to 2.05 percent in 2012.

Since then, the economy has been running at two speeds. The first is that of domestic industry, which has been shrinking due to a stronger real against the dollar and a lack of competitiveness against cheaper imports. Industrial production this year was down 3.8 per cent compared to a year earlier. However, the market for services and consumption is buoyant, thanks to pay increases and record low unemployment.

According to the minister of finance, Guido Mantega, Brazil is better prepared to face the effects of an economic downturn now, compared with the 2008 crisis, due to high international reserves and greater fiscal strength. Regardless of global financial tremors, the country is being structured for a new cycle of sustainable economic growth, with a number of reforms intended to strengthen the national economy: reduced interest rates, inflation control, a more competitive exchange rate policy, measures to stimulate domestic consumption, and the implementation of a new tax policy to improve the competitiveness and performance of the domestic industry.

The pace of investment continues to accelerate due to the Growth Acceleration Program (PAC), which focuses on Brazil's socio-economic development. Through April 2012, R$11.3 billion had already been invested. Another $597 billion will be invested through 2015.

With those measures, expectations are that the economy will grow again by 5 percent each year from 2013 onwards. Flávio Barbosa, CFO of Magnesita, a leading mining company, believes that the country has the potential to grow by 4 percent to 6 percent per year- "If Brazil can overcome the challenges, such as creaking infrastructure, a huge informal sector that limits productivity, a huge tax burden, and the low levels of investment, we are on the right track to reach those growth targets",- says Mr. Barbosa.

The road is long, but confidence in Brazil is still high. Countries of the European Union believe that Brazil will be an important business partner in overcoming the crisis that has shaken the world for four years now.

Economy of Minas Gerais is recognized as strong and diverse

In order to walk out of the global economic crisis, the country will need to rely on the economic development of its different states. Minas Gerais, which has the third-largest GDP in Brazil, second only to São Paulo and Rio de Janeiro with its contribution of 9.1 percent of national GDP (R$241.3 billion), is one of the greatest bets in Brazil.

In early July, the rating agency Standard & Poor's assigned the BBB- global scale and -brAAA- national scale issuer credit ratings to the Brazilian state of Minas Gerais. According to the agency, the ratings reflect the state's well-diversified economic base that favors its ability to levy taxes, and maintain an adequate fiscal performance and a track record of solid financial management. It also reflects the state's ability to continue reporting satisfactory fiscal metrics in 2012 and 2013 amid significant expenditures.

The state has benefited from the stability of nearly a decade of rule by the same political party, which has helped strengthen management procedures and internal systems. The intergovernmental framework in Brazil shall continue to drive the state's fiscal and financial performance, which is

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considered a credit strength. Standard & Poor's believes that this framework has led to a strong track record of improving fiscal performance among Brazilian states, given the strict guidelines to avoid deficits and/or allow debt increases.

Minas is the second-most-industrialized state in Brazil. It offers investors and companies strategic geographical position, abundant natural resources and efficient fiscal policy . Regarding infrastructure, Minas Gerais has the largest road system in the country, with 269,546 kilometers (km), which represents 16 percent of all roads in the country.

Anxious to bring sustainability and development, and help transform the economy, the state has the largest number of public-private-partnership (PPP) projects across the country, with an expected portfolio of $10 billion by 2015. Currently, eighteen projects are being developed, not counting the recent completion of the road MG-050PPP, with 406.7 km paved.

According to the president of Fecomércio –the Commerce Federation of the State of Minas Gerais , Lázaro Luiz Gonzaga, those PPPs are an alternative to reduce infrastructure bottlenecks. "Minas has shown that the experiences can be very positive", says Gonzaga. Roberto Mendes, investor relations officer at leading car-rental company Localiza is also optimistic about the PPPs- "With these partnerships in the infrastructure area, where the private sector becomes more efficient, the government can focus on other issues, such as education, health, and public safety,"- says the executive.

With the largest number of municipalities in the country, the road infrastructure of Minas Gerais deserves special attention. Since 2003, the state government has invested about $ 3.3 billion in paving nearly 5000 km of the state, with the expertise of large construction companies such as Andrade Gutierrez. Today, the program Caminhos de Minas plans to build 8000 km of strategic roads, which are fundamental to the economic and social development of certain areas of the state. Approximately $ 12 billion will be invested.

Minas Gerais is also contributing to the development of research and technology poles in Brazil. The state is rapidly evolving from a commodity-driven economy to one based on innovation and high-tech. From 2000 to 2008, exports of high and medium technology grew 163 percent, from US$19.59 billion to US$51.63 billion. State-of-the-art-technology research and development are another differential. In technological partnership with the Centro Suíço de Eletrônica e Microtecnologia(CSEM, or Swiss Electronic and Microtechnology Center) the state launched the CSEM Brasil, an innovation center specialized in microtechnology, nanotechnology, microelectronics, engineering and information technology systems. The center completes the Companhia Brasileira de Semicondutores (Brazilian Semiconductors Company) project being implemented in the state.

FLAVIO BARBOSA,
CFO of Magnesita Mining

Seventy-one biotechnology enterprises (more than one-third of all Brazilian biotechnology companies) operate in Minas Gerais, making up the country's largest concentration of biotechnology initiatives and one of the largest in Latin America.

Regarding oil and natural gas, Minas Gerais has seven projects listed in the PAC, the federal program to accelerate the economic growth of the country. The most important are the development of San Francisco's basin and the modernization works of the Gabriel Passos refinery, located in Betim.

In the basin of the San Francisco, companies are moving quickly. Those such as Petra Energia, Petrobras, Orteng, Shell, Imetame Energia and Cisco are exploring thirty-nine blocks totaling an area under concession of 111,000 km2, which corresponds to one-third of the total basin.

In the energy area, the state of Minas Gerais searches for renewable sources to make up its energy matrix. Today, of the 19,595 megawatts (MW) already installed, 90.5 percent are of hydraulic origin. Of 453.5 MW being built in Minas Gerais, 93.4 percent of the energy will be generated from hydroelectric and small hydroelectric plants (PCHs), such as Simplício (337.7 MW) and Batalha (52.5 MW) .

An Interview with Dorothea Werneck, State Secretary of Economic Development, Government of Minas Gerais, Brazil

Brazil is one of the most promising high-growth markets, with rich natural resources, economic stability and a booming middle class. In 2011, however, Brazil was clouded by government scandals and a euro zone crisis that hit export demand and decreased foreign lending, leading to a slowing growth rate. The question is: will Brazil bounce back to steady growth?

Perhaps the main highlight of this internal change is the growth of Brazil's domestic market. It is clear that the stabilization of the economy was the major generating factor of the change process, but when analyzing the past few years, the growth of the domestic market has placed Brazil in a very interesting development model. However, it is also consensus among analysts that the model based strictly on consumption is not sufficient to ensure the continued growth of the country. In 2012 we began to notice that the issue of investments has come to occupy a greater importance in the development planning of Brazil.

Regarding investments, I am referring not only to contributions that are made by the private sector - it is worth remembering that last year Brazil was the third largest destination market of foreign direct investment - and those made by the public sector, especially with regards to improving the competitiveness of Brazil. In this sense, we must include all investments in infrastructure, including roads, ports, rail and energy.

I believe that the sum of these two factors --the sustainable growth of the internal market and an investments program which actually improves the structural competitiveness of the Brazilian economy--points to extremely positive future prospects for Brazil.

The North-American risk classification agency Standard & Poor's, which recently began assessing the accounts of Minas Gerais, recently published (July 2, 2012) a technical report attributing to the Government of Minas the rating BBB- raising the state to the status of investment grade.

The classification of the state as investment grade allows many benefits, such as a more favorable business environment, lower interest rates and attraction of big investors from developed countries that, by rules of their constitutions, can only invest in assets considered low risk. How important is this new rating?

The state's creditworthiness reflects its strong and well-diversified economic structure, which is one of the main drivers of Brazil's economy. All the factors mentioned above point to the importance of the state in having reached investment grade. I would add that this has put the state on another level. And, as always in Minas, we have several goals for improvement and one of them is starting to improve this classification. The rating BBB- is the minimum, and obviously our goal – as in all economies– is to get to AAA.

We understand that there is a tendency of Brazil itself to obtain a better evaluation in the international market, but in Minas Gerais – which is the third state after São Paulo and Rio de Janeiro, to obtain investment grade – we want to work to improve this assessment quickly.

It is noteworthy that even before the announcement of this new rating, the state was having an enormous capacity to attract foreign investment. Certainly this new classification will help to improve its attractiveness.

Policies to encourage innovation and promote competitiveness in the state through research, technological development, and innovation are key to ensure good levels of market competitiveness and a healthy industry. Large companies can maintain this pace, whereas medium and small companies have more difficulty facing high costs of innovation and high economic risks. What is the role of the state in partnership with these companies to face these risks?

We believe that innovation is key to our national competitiveness. Harnessing the creativity and ingenuity of our people will magnify our competitive advantages, help discover new strengths, and hurdle limitations enabling our business enterprises to become more productive. Government actions start at the basic education level. The state occupies the leading index for basic education development (Ideb), which was created by the Ministry of Education to measure the quality of each school and each school system. In high schools, Minas is among the top three in the country and our goal is to be the first. We have fourteen public universities, of which twelve are federal and five are among the ten best in Brazil.

We have the famous Fundação Dom Cabral Business School, ranked by the Financial Times as the eighth best in the world, and also the Escola de Governo da Fundação João Pinheiro, which for twenty years has been training qualified personnel for the public management of the state. This is our largest basis.

In addition, within the structure of government, we have the Minas Gerais State Department for Science, Technology and Higher Education (SECTES), which is responsible for the promotion of technical, science and technology development in the state along with the universities. SECTES has an institution linked to the Foundation for Research Support of Minas Gerais (FAPEMIG), which is very active in supporting the development of technology, especially for the private sector. I would call attention also to state law, which requires the allocation of 1 percent of the entire government budget to promote technology.

In recent years, Minas Gerais has attracted a large number of centers of technology development, but they are not limited to large companies. Small and medium ones also have been attracted and we already have in the state the largest pole of information technology and we gather a large number of companies in the biotechnology and nanotechnology areas. The result of the work of these companies has translated into a large development in the area of research, which is later transformed into products. All this ensured Minas Gerais to be one of the five most supportive innovation states.

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The Rise of Settler Terrorism

The West Bank's Other Violent Extremists

Daniel Byman and Natan Sachs

Late this past June, a group of Israeli settlers in the West Bank defaced and burned a mosque in the small West Bank village of Jabaa. Graffiti sprayed by the vandals warned of a "war" over the planned evacuation, ordered by the Israeli Supreme Court, of a handful of houses illegally built on private Palestinian land near the Israeli settlement of Beit El. The torching of the mosque was the fourth such attack in 18 months and part of a wider trend of routine violence committed by radical settlers against innocent Palestinians, Israeli security personnel, and mainstream settler leaders—all aimed at intimidating perceived enemies of the settlement project.

This violence has not always plagued the settler community. Although many paint all Israeli settlers as extremists, conflating them with the often-justified criticism of Israeli government policy in the West Bank, the vast majority of them oppose attacks against Palestinian civilians or the Israeli state. In the past, Israeli authorities and the settler leadership often worked together to prevent such assaults and keep radicalism at bay. Yet in recent years, the settler movement has experienced a profound breakdown in

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discipline, with extremists now beyond the reach of either Israeli law enforcement or the discipline of settler leaders.

Nothing justifies violence by extremists of any variety. But to be stopped, it must be understood. The rise in settler radicalism stems from several key factors: the growth of the settler population over the past generation, the diversification of religious and ideological strands among it, and the sense of betrayal felt by settlers following Israel's withdrawal from the Gaza Strip in 2005. Israel, through the Israel Defense Forces (IDF) and other security agencies, must now assert control over groups that no longer respect the state or the traditional settler leadership. Yet just as radical settlers pose an increasing threat, mainstream Israeli society has become more apathetic than ever about the fate of the Palestinians. Negotiations between Israel and the Palestinians remain deadlocked, and even their meaningful resumption, let alone success, seems unlikely in the near future. The Israeli government thus feels little political or diplomatic pressure to confront the extremists.

But with the peace process frozen, what happens under Israeli control matters more, not less. With Israel likely to govern parts of the West Bank for some time, it can no longer shirk its obligations—to protect not only its own citizens but Palestinian civilians as well—by claiming that a two-state solution is on the horizon and that the Palestinians will soon assume full responsibility over themselves. And if Israel wants to preserve the possibility of a negotiated peace, it must address this problem before it is too late. Whenever extremist settlers destroy Palestinian property or deface a mosque, they strengthen Palestinian radicals at the expense of moderates, undermining support for an agreement and delaying a possible accord. Meanwhile, each time Israeli leaders cave in to the demands of radical settlers, it vindicates their tactics and encourages ever more brazen behavior, deepening the government's paralysis. In other words, Israeli violence in the West Bank both undermines the ability of Israel to implement a potential deal with the Palestinians and raises questions about whether it can enforce its own laws at home.

Recently, Israeli leaders have begun to recognize the problem. Following extremist vandalism against the IDF and mainstream settler leaders over the past year, some Israeli generals and government ministers began to label radical settlers as terrorists. Now, the Israeli government should translate that bold rhetoric into decisive action. To begin with, it should officially designate the perpetrators of violence as terrorists and disrupt their activities more aggressively. Security agencies should then enforce Israeli law, prosecuting violent settlers as they would terrorists, Palestinian or Israeli. And to slow the tide of radicalism, Israeli leaders must denounce extremists and shun their representatives, placing particular pressure on religious leaders who incite violence. Meanwhile, the United States and other countries seeking to revive the peace talks must encourage Israel to take these steps before things worsen. Washington should itself consider designating violent radical settlers as terrorists and should push Israel to crack down on them. Settler extremism tarnishes Israel's name and imperils its future. Friends of Israel, the Israeli government, and even those who support the settlements in the West Bank should fight back against this dangerous phenomenon.

THE WILD WEST BANK

Radical Jewish activists have staged politically motivated attacks against Palestinians and pro-peace Israelis before. In the early 1980s, for example, one group, known as the Jewish Underground, carried out a series of bombings against Arab mayors and shot three Arab students in the West Bank. And in 1995, an Israeli law student, Yigal Amir, assassinated Israeli Prime Minister Yitzhak Rabin, dealing a devastating blow to the peace process. Israeli authorities have investigated and prosecuted those involved in these operations, and they have disrupted other attacks before they could occur. Yet they have failed to stem less dramatic violence, such as arson and assault. According to UN investigations, in 2011, extremist settlers launched almost 300 attacks on Palestinian property, causing over 100 Palestinian casualties and destroying or damaging about 10,000 trees of Palestinian farmers. The UN has also reported that violent incidents against Palestinians have proliferated, rising from 200 attacks in 2009 to over 400 in 2011. The spike in assaults on Palestinians by settlers has come despite the fact that over the same period, Palestinian terrorism fell dramatically.

To be clear, arson and the destruction of trees do not belong in the same category as suicide bombings, and using the word "terrorism" to describe such vandalism risks moral equivalency. Yet "terrorism" is defined not only by the act itself but also by its purpose: to produce a psychological effect, terror, as a means of advancing a political agenda. This definition fits the aim of extremist settlers, who often scrawl the Hebrew words for "price tag" at the scene of the crime—a message to their targets that they will exact a price for any act that they oppose. Such attacks target innocent Palestinians in response to and as a deterrent against Palestinian terrorism and target Palestinians, pro-peace Israelis, and Israeli soldiers alike for supposedly anti-settlement measures taken by the Israeli government. By seeking to frighten a rival population and intimidate a government, the extremists mimic the typical methods of terrorist groups across the globe.

Extremist settlers mimic the typical methods of terrorist groups across the globe.

The Israeli government does not support or condone settler violence, but it has failed to adequately combat it. Soldiers have been known to look on as violence occurs, and they sometimes do not aggressively seek the perpetrators after the fact. According to Yesh Din, an Israeli human rights organization, of 781 incidents of settler abuse monitored since 2005, Israeli authorities closed the cases on over 90 percent of them without indictment. And the Israeli newspaper *Haaretz* has reported that the IDF is currently probing 15 cases, all of which took place between September 2000 and December 2011, of Israeli soldiers witnessing clashes between settlers and Palestinians and failing to intervene.

Israel's halfhearted response to settler violence is partly a result of the fundamental anomalies of military rule. Unlike East Jerusalem or the Golan Heights, other territories that Israel conquered in the 1967 war, the West Bank was never annexed by Israel, and Israel applies civil law there only to Israeli citizens. Although the Israeli police have authority over criminal matters among settlers, the military governs most aspects of public life, from security to construction permits. The Palestinian Authority assumed sovereignty over parts of the West

REUTERS / BAZ RATNER

West Bank story: a Jewish settler scuffles with Palestinians near the Israeli settlement of Halamish, January 2010

Bank following the Oslo accords, but Israel still controls "Area C," which includes all the settlements, four percent of the Palestinian population, and 60 percent of the total land. Within that territory, the IDF faces the extremely difficult task of safeguarding both Israelis and Palestinians. Israeli security forces may have helped drastically reduce Palestinian terrorism, but the military unsurprisingly remains wary of Hamas and other militant organizations and views the defense of Israeli citizens as its main task.

The IDF also faces little pressure from the Israeli public to protect the Palestinians under its rule. Although Israelis cared deeply about the peace process during the Oslo years, suicide bombings, the collapse of the negotiations in 2000, and the carnage of the second intifada that followed left them reeling, indignant, and wary of Palestinian intentions. In the eyes of most Israelis, Palestinian leaders not only failed to negotiate in good faith but also responded to Israeli good faith with a wave of terrorism. Although most Israelis support an agreement in principle and question the wisdom of the settlements, they blame the Palestinians for the continuation of the conflict and remain skeptical about the odds for a deal in the near future. With violence down and peace distant, Israelis have become indifferent to the situation in the West Bank and weary of the Palestinian issue in general, preferring to contain and, if possible, ignore the problem. With the peace camp all but dead and a conservative government in power, right-wing politicians exert a great deal of influence on Israeli policy, particularly regarding the settlements. In recent years, the extreme right wing has made inroads even into Prime Minister Benjamin Netanyahu's own party, the Likud, making any opposition to settlement activity a risk for more mainstream Likud politicians.

When it comes to confronting extremist settlers, then, the Israeli government is politically handicapped. Radical settlers understand why Israel has responded so tepidly to their actions and have sought to exploit this reluctance. And their violence has often successfully altered or deterred government actions that they opposed.

SETTLEMENT OVER STATE

The rise in violence among extremist settlers stems from deep changes in the settler population, particularly its dramatic growth and shifting ideological composition. Israeli civilians began moving into the West Bank and Gaza shortly after the 1967 war, when Israel conquered both territories. Some Jews sought to return to Jewish villages destroyed by Arab armies in the war of 1948, and a few hoped to reestablish a Jewish presence near holy sites such as Hebron, which both Jewish and Muslim tradition hold is the burial place of the patriarch Abraham. The Israeli government also sought to create several small settlements for security reasons: to establish "facts on the

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ground" that might allow Israel to keep several strategic points in the West Bank as part of a peace accord and might even, some argued, help Israel defend itself against an Arab invasion. In the early 1980s, the settler community was still a relatively small, coherent, and disciplined society of about 24,000. Some settlers were secular, but others subscribed to the ideology of Gush Emunim (Bloc of the Faithful), a religious-political movement that sought to fulfill what it viewed as a divine obligation to settle the complete *Eretz Yisrael* (Land of Israel), the territory Jews regard as having been promised to them by God, which includes the West Bank.

Although Gush Emunim strongly opposed any government policy that curtailed the settlement project, it respected the primacy of the state. For example, in the early 1980s, when the Israeli government evacuated all settlements in the Sinai as part of the peace treaty with Egypt, Gush Emunim protested but did not call on its members to take up arms (although several of its members went on to form the Jewish Underground anyway). For religious-nationalist settlers, the state remained an instrument of providence, carrying out God's mission by upholding Jewish sovereignty and protecting Jewish religious life in the Land of Israel. Adherents of Gush Emunim believed that salvation itself would emerge from the state and thus did not challenge its political authority. The IDF and settler leaders maintained close contact and coordination, with the military relying on the settler leadership to police its own while it focused on preventing Palestinian terrorism.

Since then, the settler movement has changed dramatically. In the past three decades, the number of settlers in the West Bank has grown more than tenfold, to some 300,000. Today, most live in large communities that function as suburbs of Jerusalem or greater Tel Aviv. The inhabitants of these settlements represent all walks of Israeli society, including secular and ultra-Orthodox Jews who do not share the nationalist zeal of Gush Emunim. Many of these Israelis moved to the West Bank primarily for economic, rather than political, reasons: the settlements are subsidized by the government, so living in them is much more affordable than living in cities inside the Green Line. Most policymakers in Israel and the United States do not consider these particular settlements to be insurmountable obstacles to a peace agreement with the Palestinians. In the past, Palestinian leaders have suggested that they might accept land swaps that would allow Israel to keep some of these settlement blocs in exchange for other territory, and many of these settlers would likely consider accepting compensation if they were told to leave their homes in the context of a peace agreement.

Yet over the last several years, the evolution of the settler community has also led to the growth of a small but significant fringe of young extremists, known as the "hilltop youth," who show little, if any, deference to the Israeli government or even to the settler leadership. No matter how strongly Gush Emunim opposed government policy, it always officially avoided vigilante violence. But these young radicals, who largely live in settlements deep in the West Bank and do not affiliate with traditional religious authorities, have embraced it. These settlers—likely no more than a couple thousand, a small but dangerous minority within the broader community—are the ones leading the "price tag" attacks against Palestinian civilians and Israeli soldiers. They have lost faith in the notion that the state, under its current leadership, is key to settling the Land of Israel. Instead, they see it as an obstacle to God's will.

Although the Israeli military has traditionally worked closely with the heads of the settlements to maintain security, this new generation of radicals scoffs at such cooperation, viewing the settler leadership as complicit in the government's crimes. As a result, the settler establishment has little control over the most problematic members of its community. Indeed, extremists have targeted some of the most central figures of the settler movement, including Ze'ev Hever, who heads the construction arm of the settlement enterprise. Hever, once a member of the Jewish Underground, is the person perhaps most responsible for the settlement expansion that has occurred in collaboration with the Israeli government. Yet this past June, extremists expressed their outrage at continued cooperation between the settler leadership and state authorities by slashing the tires of his car.

This new generation of extremists came out of the trauma of Israel's 2005 withdrawal from the Gaza Strip, known by the settlers as "the expulsion." In late 2003, Israeli Prime Minister Ariel Sharon, once a champion of the settler movement, announced that he planned to dismantle the Israeli settlements in Gaza. Sharon's transformation rocked the settlers. Feeling abandoned, many began to question the authority of the state. Whereas settler leaders could once portray previous actions against various outposts or individuals as tactical maneuvers, they understood that Sharon's "disengagement," as it became known in Israel, represented a fundamental break with their religious mission.

Even so, settler elders and their allies upheld the sanctity of the state and opted for largely nonviolent opposition. They embarked on a public relations campaign, portraying themselves as an oppressed minority and borrowing the color orange from the 2004 Ukrainian revolution to reinforce their image as a peaceful civil movement. Even as it became clear that the settlers' challenge to the disengagement would not succeed, most settler leaders called on Jews in Gaza to avoid violence against Israeli soldiers and refrained from urging soldiers, including settlers in military service, to disobey the evacuation orders. Opposition to the withdrawal, in other words, remained within the bounds of Israeli political discourse and preserved the settler movement's deference to the state.

As the disengagement approached, however, a segment of more radical settlers began speaking out against their leaders' acquiescence. Some rabbis even suggested that divine intervention would prevent the withdrawal at the last minute. But in the summer of 2005, Israel did pull all the settlers, some 8,600 people, out of Gaza and ended its military presence there. The Israeli military forcefully removed families from their homes, demolished villages, and transferred entire communities—homes, synagogues, cemeteries, and schools—to Israel proper. Neither the nonviolent resistance of the settler establishment nor divine intervention stayed the government's hand. Radical settlers saw the expulsion as a manifest failure of the old guard's approach. Not only was the state of Israel no longer a vehicle of redemption; it had actively rolled back the most important project of contemporary Jewish religious nationalism: settling the Land of Israel. The settlers felt doubly betrayed by the sense that the government failed to reintegrate them properly into Israel, devoting inadequate resources to their relocation and, in their eyes, essentially neglecting them after the withdrawal ended.

Faced with what the radical settlers saw as a choice between the state and the settlements, they picked the latter. To stave off another disengagement of any kind, they resolved to retaliate against any attempt by the Israeli government to crack down on the movement—hence the birth of the "price tag" attacks. In this climate, the traditional leadership of the settler movement and the authority of the Israeli government are less relevant than ever.

RADICAL SUCCESS

SETTLER VIOLENCE is undoubtedly working. It has made it more difficult for the IDF to govern the West Bank and fractured the settler movement, weakening the influence of the more moderate elements that would accept the legitimacy of the Israeli state even if it committed to another withdrawal. The "price tag" doctrine has thus raised the cost of even token settlement removals. The violence has conditioned Israeli politicians to worry that any pullout, whether as part of a peace agreement or as a unilateral measure, will lead to conflict. That puts the government in a bind. If it ignores the radicals, they will undermine its authority and any Palestinian goodwill that might result from a withdrawal. Confronting them, however, risks public spectacles of armed police dragging conservatively dressed young girls out of their homes, a political disaster for any Israeli government.

The first post-Gaza pullout, the dismantlement of the outpost of Amona in 2006, justified such fears among Israeli politicians. During the demolition of nine uninhabited homes built on land determined to belong to Palestinians, thousands of settlers confronted Israeli security personnel, occupying the homes and nearby areas and attacking the officers with rocks, bottles, and cinder blocks. The riot left 200 people injured, including 80 security officers and two Israeli members of the Knesset (Israel's parliament) who had come to support the settlers.

Although the mission technically succeeded, the violence surrounding it strengthened the perception that any withdrawal, no matter how small, risks opening up deep fissures within Israeli society. The incident left Israeli leaders wary of future evacuations

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- *The Political Economy of the Persian Gulf* (Columbia University Press/Hurst, 2012).
- *The International Politics of the Persian Gulf* (Syracuse University Press, 2011).
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and eager to retroactively legalize the remaining outposts in the West Bank. In fact, this past June, after the Israeli Supreme Court ordered the government to dismantle several outposts built on private Palestinian land, the Knesset debated a bill that would have circumvented the court and legalized several houses there, a move with profound legal ramifications. Only the direct intervention of Netanyahu killed the bill. In response, demonstrators in Jerusalem burned public property and extremists vandalized the mixed Arab-Jewish village of Neve Shalom, in Israel, with graffiti saying "Death to Arabs."

Besides undermining the rule of law and intimidating Israeli politicians, radical settlers have increasingly come to define the way that Palestinians see Israelis as a whole. After Israel took control of the West Bank and Gaza in 1967, the two communities interacted regularly. Israelis shopped in the West Bank, and hundreds of thousands of Palestinians worked in Israel. But the second intifada stopped Israelis from casually entering Palestinian areas, and in response to Palestinian terrorism, Israel enacted policies that made it harder for Palestinians to work inside the country, culminating in the construction of the security barrier. Today, essentially the only Israelis that Palestinians interact with are soldiers and settlers, whom they see as representative of all Israelis. This means that relations among settlers, Israeli soldiers, and Palestinian civilians are now more important than ever.

Trying to stop settler violence is a clear moral and political imperative.

By making life miserable for their Palestinian neighbors, the radical settlers strengthen those they most fear: Palestinian terrorists. Hamas portrays itself as a resistance organization that defends the Palestinian people, and it uses the most extreme attacks on Palestinians, such as the 1994 massacre of 29 Palestinian Muslim worshipers in Hebron by Baruch Goldstein, to justify its own terrorism as self-defense. Of course, these claims are a sham: groups such as Hamas would try to kill Israelis in any event. But settler attacks do make Hamas' propaganda more credible among the Palestinian public.

Settler radicalism also discredits those Palestinians who oppose terrorism, such as President Mahmoud Abbas and Prime Minister Salam Fayyad. Their inability to get Israel to stop its own citizens from attacking Palestinians makes them appear feeble and undermines the notion that they can negotiate a fair treaty with Israel. The situation recalls the bitterness Israelis felt when dealing with former Palestinian leader Yasir Arafat as Palestinian suicide bombings continued: either he could stop the violence and chose not to or he was unable to end it, in which case there was little reason to talk. As settler violence increases, the Palestinians will begin to say the same about Israel's leadership.

COUNTER TERROR

With the peace process in a stalemate, Israel's control of the West Bank is not likely to end soon, and the government cannot ignore the persistent settler violence by claiming that the settlement issue will soon be resolved as part of a peace deal. Just as Palestinian officials must fight Palestinian terrorism, Israel must fight settler terrorism. Cracking down on radical settler violence would not give the Palestinians the political recognition they crave, nor would it lead to peace. But it would help legitimize moderate Palestinian leaders and make life better for ordinary Palestinians, both of which would keep alive the possibility of a negotiated peace. Stopping extremist violence in the West Bank may become even more important should the peace talks resume in earnest. If the Israeli government plans to withdraw from additional territory, settler terrorism may increase, exacting a considerable political price from the government and potentially derailing peace.

Over the last several months, Israeli officials have begun to take the problem of settler terrorism more seriously, at least rhetorically. Last year, the Israeli general in charge of the West Bank, Nitsan Alon, described the violence by radical settlers as "terrorism" and urged the IDF to "do much more to stop it." Even the chair of the Yesha Council, the forum that traditionally speaks for the settler community, recently denounced the "terrible and shameful phenomenon of masked Jews with slings and a stone in their hands" and forcefully reprimanded mainstream settlers for their silence on the matter. And following settler vandalism of an IDF base in the West Bank last year, the Israeli ministers of defense, legal affairs, and internal security discussed officially designating the "hilltop youth" as a terrorist organization. The government should do this, thereby facilitating a coordinated intelligence and law enforcement campaign against the violence. Israeli courts should no longer treat radicals as patriots who have strayed in their defense of Israel and should instead give them stiff sentences to keep them behind bars and to deter others from following their example. Meanwhile, mainstream rabbis should denounce their radical brethren and demonstrate how their views contradict centuries of religious tradition. When extremist rabbis incite violence, they must face prosecution.

In executing this crackdown, the government should also attempt to work with the traditional settler leadership. The timing may be right: having seen the violence committed against leaders such as Hever, settler officials realize that the radicals have seized the momentum and fear that "price tag" violence will tar the entire settlement project, setting back decades of efforts to win over more Israelis to their cause. Traditional leaders can ostracize the most extreme elements among the settler community and preach more forcefully against violence. And with the help of settler leaders, the government can gain vital intelligence on the radicals.

To avoid creating a new burst of extremism, Israel must also prepare to handle any future settlement withdrawals more smoothly. It should begin by encouraging settlers in remote areas to relocate to Israel proper regardless of the peace process or any forced withdrawal. Several Israeli figures, including Ami Ayalon, a former head of Israel's domestic intelligence service, have proposed a wide-ranging program meant to entice thousands of settlers to relocate to Israel of their own volition, but the proposal has thus far faced resistance from the settler establishment and the government. And when actually evacuating settlements, as Israel will have to do as part of any peace agreement, it should devote enough resources to properly compensate the settlers.

The United States also has a role to play. Washington has long hoped that issues related to settler violence would vanish after the implementation of a peace deal. In the absence of meaningful negotiations, however, it must prevent both parties from deepening tensions. By highlighting the problem of settler extremism, the United States can push Israel into responding to it more effectively. In addition, much like Israel, it should consider designating individuals involved in acts of violence against Palestinians as terrorists. Such a designation would allow U.S. authorities to prevent Americans from sending them funding and would be a way to support those Israelis seeking to combat the rise of extremism.

Almost everything related to the Israeli-Palestinian dispute involves complex tradeoffs and sorting through opposing and often equally legitimate claims. But trying to stop settler violence is a clear moral and political imperative. Israelis, who know the horrors of terrorism better than the citizens of any other democracy, should have a special understanding of the need to ensure that extremist violence does not ruin the lives of Palestinians and prevent Israel from making hard but necessary choices about its future. Whether the conflict continues indefinitely or the peace talks soon resume, Israel must confront its homegrown terrorism problem.

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Obamacare and the Court

Handing Health Policy Back to the People

Barry Friedman

In the weeks and months before the U.S. Supreme Court delivered its ruling on the constitutionality of the Affordable Care Act (ACA) in *National Federation of Independent Business v. Sebelius,* some pundits dubbed the lawsuit "the case of the century." Whatever the Court decided, commentators and activists on both sides of the aisle thought that it would resolve the fate of President Barack Obama's health-care reforms. The ruling would reverberate throughout the worlds of law and politics.

Instead, the Court surprised everyone. A five-member majority led by Chief Justice John Roberts upheld the ACA on grounds that few Court watchers had anticipated. The case may well find its way into the annals of the law. But in the end, Roberts' opinion removed the Court from the debate about health care and put the conversation back in the realm of politics.

BUYING THE BROCCOLI ARGUMENT

The debate over health care began when Obama promised to make health insurance affordable for all. To succeed, he needed to cut a deal with the health-care companies, which had long opposed such reform. In return for an expansion of the pool of insurance subscribers

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to cover their costs, the insurance companies agreed to neither deny coverage to those with preexisting conditions nor impose higher rates on them. To achieve this compromise, the Obama administration devised what would become known as the individual mandate: the government would require Americans to either purchase health insurance or pay a set amount to the U.S. Treasury. Republicans, opposed to such an expansion of government, fiercely resisted the bill in Congress and, once it passed, promised a full-scale campaign to overturn it. Within weeks of the bill's passage, Republican attorneys general in 26 states had launched a series of legal challenges to the legislation.

In court, opponents of the ACA presented two primary claims. First, they argued that the individual mandate exceeded the bounds of the commerce clause, the power given to Congress by the Constitution to regulate interstate commerce. The states also targeted the legality of the ACA's extension of Medicaid, a move that would cover many who were previously uninsured and deny existing Medicaid funding to states that did not comply.

Initially, few in the mainstream legal community took either claim seriously. And with good reason: neither had strong support in existing judicial precedent or practice. Since the New Deal, the Supreme Court has given Congress vast authority to regulate commerce. In 1942, the Court unanimously held in *Wickard v. Filburn* that Congress could forbid a farmer from growing wheat on his farm for his own consumption. Congress had set out to stabilize wheat prices, and if all farmers began growing their own wheat instead of buying it, the justices reasoned, then demand would drop and so would prices. The Court thus recognized that even the most local economic decisions could affect integrated interstate markets, and it empowered Congress to regulate them.

Given the logic of *Wickard v. Filburn*, the ACA seemed well within the bounds of Congress' powers. Under the existing law prior to the ACA, those who could not afford medical care ended up receiving it at emergency rooms for free. The costs were then passed onto everyone else in the form of higher insurance premiums. According to a study by the Henry J. Kaiser Family Foundation, in 2008, federal and state governments paid $43 billion to health-care providers to cover the uninsured. Many experts agreed that skyrocketing health-care costs were damaging the U.S. economy. Like the farmer's decision to opt out of the interstate market for wheat, the failure of millions to obtain health insurance was harming the interstate health-care market.

The ability of Congress to attach conditions to federal spending grants, such as Medicaid, seemed similarly invincible. As much as the Supreme Court has recognized the expansive power of Congress to regulate commerce, it has granted the legislative branch even more leeway to tax and spend on behalf of what the Constitution refers to as "the general welfare." Congress regularly adds all sorts of conditions to spending grants, giving recipients, including the states, the choice to accept those conditions or not take the money. Since the New Deal, the Supreme Court has not invalidated a single spending condition on constitutional grounds.

The ACA seemed well within the bounds of Congress' powers.

This all seemed uncontroversial and settled, until a powerful idea took hold. Randy Barnett, a law professor at Georgetown University and longtime champion of limiting the scope of Congress' power under the commerce clause, devised a challenge: although the legislative branch had sweeping power to regulate existing markets, he argued, that power did not extend to forcing people to participate in those markets. For the first time in history, Barnett and his conservative colleagues contended, Congress had tried to regulate market "inactivity" rather than "activity." In their view, people without health insurance had made a reasoned decision not to participate in the market, and Congress could not compel them to join it. The Tea Party and its fellow travelers took up Barnett's argument, using broccoli as a rallying cry: if Congress could make Americans buy health insurance to prop up the market and improve public health, it could make Americans buy and eat broccoli, too.

To the surprise of many scholars, the legal case against the ACA soon gained momentum. Several federal district courts—all led by judges appointed by Republican presidents—overturned the mandate. The Obama administration initially attempted to slow the process down, but after a federal appellate court in Atlanta ruled against the ACA, the White House decided to bring the case immediately to the Supreme Court. Both Republicans and Democrats thought that the outcome of the Court's ruling would have profound implications for the 2012 presidential election, and both sides hunkered down for a bitter post-decision fight.

COURTING VICTORY

ONCE IT became clear that the Supreme Court would decide the health-care case before this year's presidential election, the justices found themselves caught in a partisan wrangle. The intensity of the moment was reminiscent of the turmoil during *Bush v. Gore*, which decided the 2000 presidential election, or during the Court-packing controversy of the 1930s, when President Franklin Roosevelt encountered so many challenges to his New Deal from conservative justices that he proposed filling the Supreme Court with additional justices to get his way (the Court ultimately caved instead). From the start, the political battle over health care loomed over the ACA case and what its outcome would mean.

The Court had become deeply politicized well before the health-care case. Liberals, wary of the Court's rightward turn with the addition of Roberts and Samuel Alito, felt their fears were justified after the Court voted in January 2010 to overturn campaign finance restrictions in *Citizens United v. Federal Election Commission*. When Elena Kagan replaced John Paul Stevens on the bench later that year, the Court became truly split along party lines: the five conservative justices had all been appointed by Republican presidents, and the four on the left, by Democrats.

But even with such a clear ideological split, many legal experts expected at least some of the conservative justices to side with the liberals in upholding the ACA. Some analysts thought that the swing vote would come from Justice Anthony Kennedy. Although unequivocally conservative, he had often voted with the liberal justices, such as in the Court's decision in *Lawrence v. Texas* to strike down state bans on sodomy. Yet Kennedy had long supported states rights, which might lead him to oppose the ACA on the grounds that it granted Congress powers more properly held by the states. Others suspected that Roberts might be willing to vote with the liberals. A staunch conservative, Roberts had nonetheless made clear that he sought to preserve the Supreme Court's nonpartisan reputation. In fact, other than in his controversial ruling in *Citizens United*, Roberts had steered the Court rather quietly through the political turbulence of the past several years. If Kennedy voted to declare the health-care law constitutional, many thus reasoned, Roberts might do so as well. Conventional wisdom suggested that the justices would uphold the ACA, perhaps by as wide a margin as seven to two.

Yet once the Court began hearing oral arguments, predictions quickly shifted. The conservatives on the Court, including Kennedy, asked deeply skeptical questions of the government's lawyer, Solicitor General Donald Verrilli. At one point, Kennedy said of Verrilli's argument that "the government is saying that the federal government has a duty to tell the individual citizen that it must act. . . . And that changes the relationship of the federal government to the individual in a very fundamental way." Suddenly, it seemed as though the Court would overturn the ACA. The Obama administration remained outwardly optimistic. Pundits, however, began asking not whether the Court would strike down the individual mandate but how much of the ACA would go with it.

On June 28, 2012, when the Supreme Court announced its ruling, both the way the individual justices voted and the reasoning of the decision came as a shock to almost all Court watchers. The chief justice had crossed partisan lines, writing the lead opinion upholding the individual mandate by a five-to-four vote. The other conservative justices, meanwhile, wrote an unusual jointly authored dissent.

The Court's reasoning in preserving the individual mandate proved even more unexpected. Roberts and the conservatives agreed that the individual mandate exceeded the power of Congress to regulate commerce. But Roberts then pivoted, joining with the Court's four liberals in holding that the mandate could be characterized not as a penalty but as a tax and so was well within Congress' broad power to tax for "the general welfare." Thus, the Court spared the individual mandate and upheld most of the ACA.

On the matter of the ACA's Medicaid provision, however, the liberal justices Kagan and Stephen Breyer joined with the right in holding that Congress could not condition the granting of preexisting

Rio de Janeiro Revisited

By Paulo Ferracioli (Engineer and professor at Getulio Vargas Foundation)

The state of Rio de Janeiro presents a very positive economic outlook for the coming years, even if Brazilian records point out a clear slowdown of the economy. Data from the Brazilian industrial sector show negative figures for production, employment, and wages, despite several governmental measures adopted to support it. So far, the amount of investments has been considered low, caused by the lack of competitiveness of the industry due to factors such as insufficient infrastructure, the appreciation of the real, high interest rates and considerable bureaucratic complications. Cristiano Machado, CFO of Brookfield, one of the largest real estate companies in Brazil, says "We believe that the current growth rates are sustainable, but we are below our growth potential as result of bottlenecks in our capacity to invest due to tax issues and a poor infrastructure."

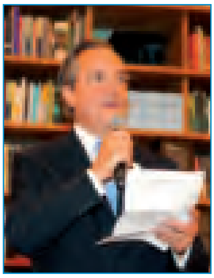
Investments in Brazilian infrastructure were delayed by political issues, but there are some signals that now the problems are being overcome and investments are about to take off. Trying to prevent the excessive appreciation of the real, some measures were taken by the government, but they were limited and had little effect. The reduction of overvaluation occurred only recently and it is possible to note that some investment decisions are being put off by fears of a new currency appreciation. Regarding interest rates, lower inflation allows the Central Bank to reduce them. Bureaucratic matters that affect Brazilian business still depend on appropriate treatment.

In Rio de Janeiro, the economy showed results that, altogether, do not differ much from that observed elsewhere in the country in early 2012. All the industrial sectors of the state also showed some reduction in sales, employment, and wages. However, there is considerable optimism about the future performance of the state economy on account of some specific reasons: sports events scheduled in the coming years and the oil exploration and production (E&P), industry.

The impending soccer World Cup and the Olympic Games require major investments in urban infrastructure, including considerable improvements in urban transport, especially in Rio de Janeiro. The creation of this infrastructure has generated lots of business for the construction industry, which is very optimistic about its prospects. This new transportation infrastructure increased the demand for other construction activities, since city areas that were once unattractive started to draw interest for the purposes of building new homes, of which Brazil still has a considerable deficit. The realization of these investments in housing has received a major boost by the expansion of loans from the federal government, with subsidized interest rates in the case of property purchase by individuals at certain income levels. In fact one could say that there is a boom in the construction sector all over Brazil. "With the political alignment of the three levels of government (state, federal and municipal), we have been able to implement a wide range of different projects and investments of pivotal importance for the development of our state. This had a direct impact in civil engineering and public construction", says Mr. Carlos Fernando de Carvalho, president of Carvalho Hosken, a Rio de Janeiro-based construction and engineering company.

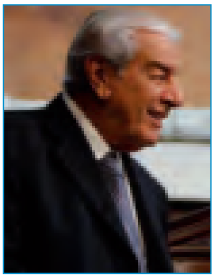
CRISTIANO MACHADO,
CFO of Brookfield

The oil discoveries, especially in the pre-salt, also bring new opportunities for investment in Rio de Janeiro. Petrobras, which has its headquarters in the state, has been forced to broaden both its activities like those related directly to E&P and its industrial activities, such as the installation of the Petrochemical Complex of Rio de Janeiro (COMPERJ) - . In addition to Petrobras, there are several companies that purchased the areas for oil exploration in the auctions conducted by the National Petroleum Agency (ANP) and that are now setting up or expanding their activities in the state. Because of the size and the sophisticated technology required, many activities are developed by service providers, thus attracting companies from around the world willing to be suppliers of the companies directly responsible for E&P. As Andre Araújo, CEO of Shell Brasil, points out, "We have enough supplies of commodities and energy to meet the growing consumption demand ".



EDUARDO VIEIRA,
President of FIRJAN

All these activities require an infrastructurel level that doesn't exists today. Ports, airports, and roads in Rio de Janeiro are not suited to the new demand and will require large investments, some already started, which should continue for several years. There are investments directed initially to the petroleum industry that are now including a link with existing railways that need major improvements and to the creation of an industrial zone in the surroundings areas, such as the complex in the Port of Açu.



CARLOS DE CARVALHO,
President of Carvalho Hosken Construction

The northern cities of the state, where most of the oil activity is located, are not able to cope with the uncontrolled growth and the large population that has been attracted there by the prospect of employment. In order to meet growing social demands, they need to make huge investments in the coming years. A serious problem to be solved is the funding of municipalities, because the dispute within the federation about how to distribute the royalties from oil is fierce, and there is currently a great possibility that these cities will lose at least a portion of the resources that they currently receive.

The requirement that manufacturers located in Brazil provide part of the equipment necessary for the E&P in the bidding for exploration areas also promotes industrial investment in the region. The National Organization of the Petroleum Industry (ONIP) seeks to identify products that have no domestic suppliers and aims both to attract new foreign companies to Brazil and to articulate to government agencies the funds needed for technology development in the existing companies. The Federation of Industries of the State of Rio de Janeiro (FIRJAN) also works with the sector, to help increase the number of workers who have appropriate and professional qualifications.

Investment opportunities in Rio de Janeiro are not limited to sports events and the oil industry. Tourism, the audiovisual industry and the automobile and steel industries are also highlights in the planned investments in the state. To support new investments, the state government's Industrial Development Company (CODIN) aims to help investors and regions interested in attracting new projects. Another important initiative is the Forum for Strategic Development of the State, which integrates the government and civil society with the objective to foster development initiatives.

In the period of 2012-2014, FIRJAN foresees investments of US$120 billion in the state, the highest triennial amount ever, demonstrating optimism towards Rio de Janeiro. The achievement of this potential will not be an easy task. The characteristics of the planned investments require significant coordination between the public and the private sectors. The worsening of the international crisis, depending on its severity, can also be a complicating factor, though some of the investments, especially those related to E&P and sports events are not dependent on external resources. So far, there are good reasons to stay optimistic.

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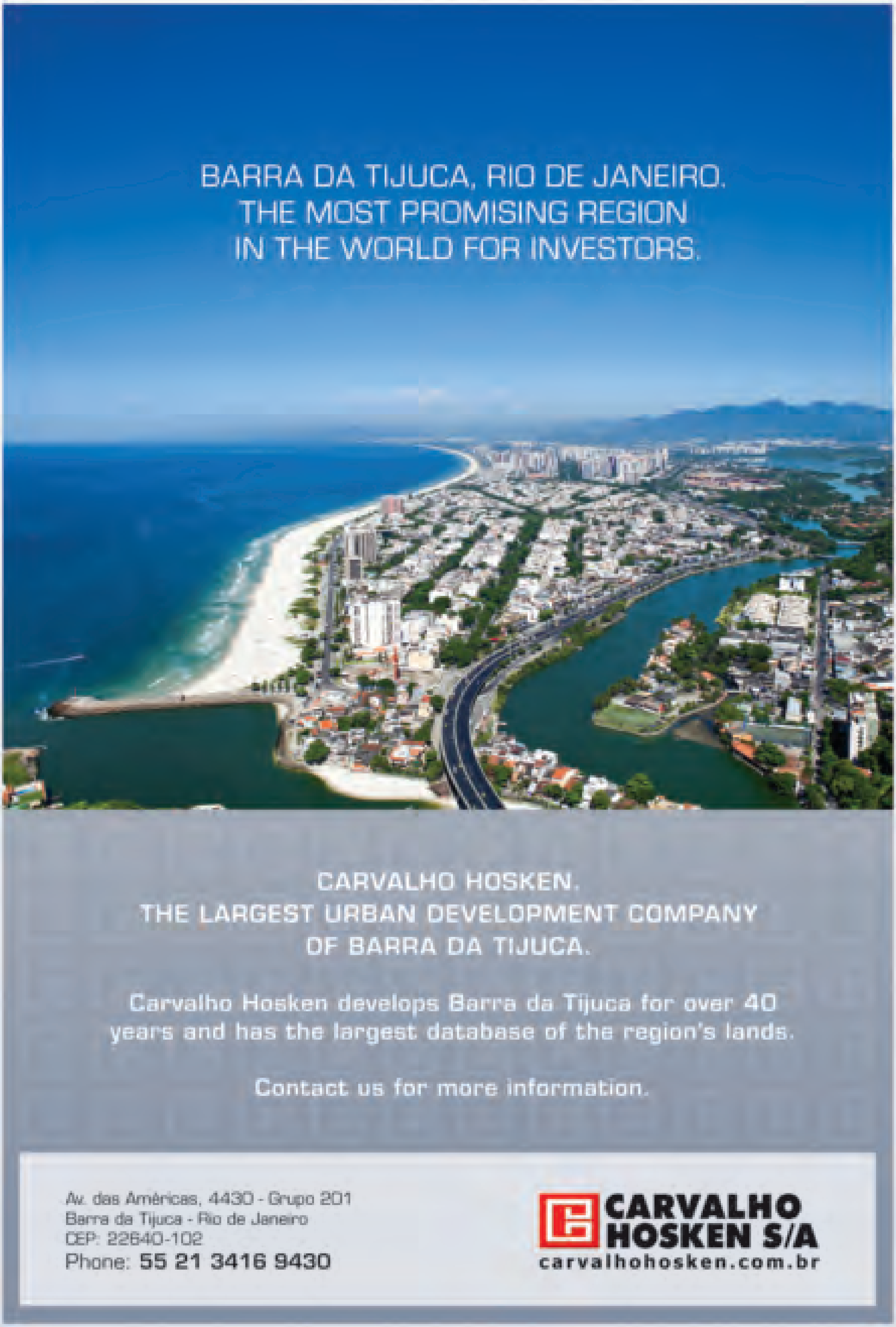


Medicaid funds to states on whether those states would agree to accept the ACA expansion. According to the Court, the states had a choice: they could keep their existing funds under the old program, or they could sign up for the new one. For the first time since the New Deal, the justices had struck down a condition attached to a congressional spending grant.

The Court's decision had two historical analogues. Roberts' legal pirouette—upholding the ACA while limiting Congress' power under the commerce clause—seems similar to that performed by Chief Justice John Marshall in *Marbury v. Madison*. That landmark case, decided in 1803, arose after Thomas Jefferson's Republicans crushed John Adams' Federalists in the election of 1800 and the latter sought to pack the judiciary before relinquishing power. James Madison, the incoming Republican secretary of state, refused to deliver a judicial commission to a Federalist nominee named William Marbury, preventing Marbury from assuming his position, and Marbury sued to force Madison to deliver it. Marshall understood that if he ruled in favor of Marbury, the Republicans would simply ignore him and the Court would lose its credibility. To solve the dilemma, Marshall concluded that the provision that enabled Marbury to sue was itself unconstitutional. He thus managed to avoid awarding Marbury his commission, but he recognized the principle of judicial review: the power of the judiciary to review the constitutionality of actions taken by the legislative and executive branches.

By voting with the liberal justices, Roberts took the spotlight off the Court.

Roberts seems to have achieved a similar long-term victory in his health-care decision. By upholding the mandate, he preserved the standing of the Court and prevented the left from making the Court's legitimacy an election issue. Yet in labeling the mandate a tax rather than a penalty, he gave the Republicans the ability to call the ACA a giant tax hike, exactly the scenario that the Democrats had hoped to avoid by deeming the mandate a penalty in the first place. He also accepted the conservatives' argument that Congress could not regulate inactivity under the commerce clause, potentially setting the stage for future limitations on congressional power.

At the same time, Roberts' vote echoed the actions of two conservative justices during Roosevelt's battle with the Supreme Court over the New Deal. Roosevelt's attempt to fill the Court with liberal justices ignited a political brawl that captivated the country in the first half of 1937. In the midst of it, Chief Justice Charles Evans Hughes and Justice Owen Roberts, recognizing the threat to judicial independence posed by Roosevelt's Court-packing plan, abandoned the anti–New Deal faction of the Court and voted to uphold two New Deal measures. The "switch in time that saved nine," as their maneuver came to be called, saved the president's agenda but undermined support for his Court-packing proposal, which subsequently failed.

Press reports in the days following the Court's health-care ruling seemed to confirm the comparison between the New Deal justices and Roberts. According to Jan Crawford of CBS News, two sources "with specific knowledge of the Court's deliberations" had confirmed that Roberts had originally intended to vote alongside the four conservative justices and invalidate the individual mandate but changed his mind. Why he did so remains a matter of speculation. It is possible that the other conservative justices insisted on striking down not just the individual mandate and some related provisions, such as the rule forcing insurance companies to accept those with preexisting conditions, but also the entire ACA, a step that Roberts did not want to take. It is also possible that Roberts simply worried that striking down the ACA would jeopardize the reputation of the Court. Whatever the case, his decision to uphold the ACA seems contrary to his conservative inclinations. The question is whether his judgment will set long-lasting legal precedents or have critical political implications.

JUDGING THE SCORE

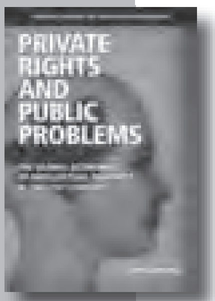
PARTISAN DEBATE about health care had raged before the Supreme Court's decision, with both the left and the right preparing to claim victory depending on whether the verdict went its way. But to some extent, the ruling left everyone a winner.

To begin with, Obama clearly emerged triumphant. In truth, he might have won whatever the outcome. Had the Supreme Court overturned the ACA, it would have energized the Democratic base. By upholding the act, however, the Court has enhanced the president's stature by ratifying his signature domestic policy achievement. Yet the Republican presidential candidate Mitt Romney may also profit from the decision. By labeling the individual mandate a tax, Roberts handed the Republicans a prime talking point. It took Romney several days to agree with the chief justice, given that as governor he had imposed just the same "tax" in Massachusetts. But Romney seems to have embraced the Court's logic and begun to exploit it by accusing Obama of raising taxes.

Roberts also benefited from the decision. Many on the right have expressed bitter disappointment and a sense of betrayal following his ruling, with some even calling for his impeachment. Meanwhile, the left has lauded him as a heroic centrist. But Roberts will almost certainly return to his conservative values soon enough, especially as the Court tackles such issues as affirmative action, voting rights, and gay marriage. Rumors suggest that the other conservative justices have decided to turn their backs on Roberts. If that is in any way true, it would be a mistake. Justice Antonin Scalia alienated former Justice Sandra Day O'Connor when he ridiculed her in opinions and expressed his displeasure with her frequent swing voting, and there would be little profit in repeating that tactic with Roberts, who remains the fifth conservative vote necessary for so many issues.

The American public also got what it wanted. A cursory glance at the polls in the lead-up to the decision, which regularly reported that a plurality of Americans opposed the ACA, would suggest otherwise. But a closer reading shows that although some voters tended to dislike the act in general and a majority opposed the mandate in particular, a strong majority also favored several individual aspects of the health-care bill, such as the provision allowing children to remain on their parents' policies until age 26 and that forbidding insurance companies from denying coverage to those with preexisting conditions. Roberts addressed public concerns about the mandate, ruling that people did have a choice: buy insurance or pay a relatively small tax. And he saved the parts of the bill with broad support.

In the immediate aftermath of the decision, partisans on both sides struggled to decide whether the ruling helped or harmed their



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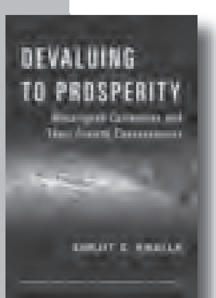

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political fortunes. Roberts' ruling split the difference, allowing each side to claim some measure of victory.

THE LEGAL STATE

THE POLITICAL effects of the ACA decision may not prove as decisive to this year's election as previously thought, and the constitutional validity of the health-care bill is now certain. The most interesting implications of the ruling, then, may play out in the legal arena itself.

To begin with, this case was never truly about federalism; the real underlying concern was for individual liberty. Tea Party activists would have protested against any state-imposed mandate to buy health insurance as vigorously as they did against the ACA. Yet states have long issued such mandates; for example, 47 states require motorists to purchase auto insurance to obtain and keep a driver's license. This fact made it difficult to argue the case from the perspective of individual liberty. Federalism thus offered the only avenue of possible success.

Although federalism was only a front for concerns about liberty, the Supreme Court's decision ended up touching on a number of critical states rights issues, the first being the commerce power. The take of the five conservative justices on the central question of the case, the validity of the legislation under the commerce clause, will likely matter much less than anyone thinks. The right fought hard for exactly this ruling, and some on the left believe that it may impede the future ability of Congress to regulate commerce, particularly commercial inactivity. But Congress has gone more than 200 years without trying to regulate economic inactivity, and it did so in this instance only to avoid calling the individual mandate a tax. As a result, the Court's holding on the ACA will likely not limit Congress' actual power in this area very much.

On the other hand, the issue that broke the least ground as a legal matter, the Court's ruling on the authority of Congress to tax, may prove more important. The Supreme Court has traditionally given Congress broad authority to levy taxes, and it would have come as a shock had the justices decided to strike down the individual mandate as an individual tax. But Roberts essentially argued that although

Congress could not regulate inactivity through a penalty, it could do so through a tax. In other words, Congress could not compel people to buy broccoli through a fine, but if they chose not to buy broccoli, it could tax them for not doing so. In coming to that conclusion, the chief justice gave Congress the license not just to tax activities that people do perform but also to tax ones that they do not perform—something a revenue-starved Congress may well take advantage of in the future.

The Court's decision to forbid Congress from conditioning existing Medicaid funds on states' agreements to accept the new plan will also affect the legal universe. The justices concluded that the condition on the Medicaid grant in the ACA was too coercive, and thus invalid, but it is difficult to understand the precise reasoning behind that from their decision. True, the amount of money at stake for states in choosing whether to accept the conditions was far greater than in past grant situations, making the government's conditions more onerous. But the line between inducing state participation, which is legal, and coercing it, which is not, remains hard to identify with precision. In the wake of this decision, state and local governments will likely challenge existing conditions on other federal spending grants.

The ACA decision certainly added new elements to the debate about federal power. Although the limitation on the regulation of commerce may not amount to much, the Court did give Congress room to explore new methods of taxation and invited state and local governments to challenge the ability of Washington to condition their participation in federal programs. The health-care case will thus change the legal landscape in some ways but not in others.

THROWN OUT OF COURT

The ACA ruling may have mixed consequences for electoral politics and the law. Sometimes, Supreme Court decisions can spark fierce opposition and energize protest movements that play out over generations. But this one will probably not.

Two famous cases from the 1970s exemplify the long-term effects of controversial Supreme Court verdicts: *Furman v. Georgia*, which abolished the death penalty, and *Roe v. Wade*, which established abortion rights. The Court's ruling in *Furman v. Georgia* seemed sensible at the time. Polls suggested declining support for the death penalty across the country, and many states had entered moratoriums on executions and others had banned the practice entirely. Yet *Furman v. Georgia* generated an enormous backlash, with 35 states and Congress responding by enacting new death penalties. The justices heard the roar; shortly thereafter, they upheld most of the new statutes and have done all they could to avoid interfering with the death penalty since.

Meanwhile, in *Roe v. Wade*, polling data taken around the time of the decision indicated that Americans broadly supported liberalizing abortion rules, and many approved of the Court's verdict. But *Roe v. Wade* ignited a slow burn of opposition on the right, bringing many formerly inactive citizens into politics and aiding the election of President Ronald Reagan, a social conservative, less than a decade later. Much like in the aftermath of *Furman v. Georgia*, the Supreme Court backtracked from its initial ruling under intense political pressure. In the 1992 case *Planned Parenthood v. Casey*, the justices formally upheld *Roe v. Wade* but gave states permission to put new restrictions on abortion, something polls at the time showed the public favored.

In the ACA decision, Roberts likely broke with this pattern. By voting with the liberal justices to uphold the bill, he removed the spotlight from the Court and placed the issue of health care back in the realm of politics. States may reject the Medicaid expansion for fear of higher costs or because they see a political benefit to undermining the law. Individuals also face a choice: whether to buy health insurance or pay what the Court's majority deemed a tax. Some may figure that as long as they have to pay one way or another, they might as well buy insurance. Others may stand by their ideological opposition to the ACA and opt out. Meanwhile, if Romney wins the election and Republicans retain the House of Representatives and capture the Senate, they may attempt to repeal the law. If, on the other hand, Obama wins a second term, then the health-care law will likely become entrenched alongside long-standing social welfare programs such as Social Security and Medicare.

No matter what happens, however, the debate over the ACA will now take place in the public sphere rather than in the courtroom. In both *Furman v. Georgia* and *Roe v. Wade*, constitutional principles interfered with the will of a democratic majority, preventing it from fulfilling its political aspirations in the future. In the ACA ruling, however, the Court did exactly the opposite: not stand in the way of the political process but give the health-care issue back to it.

Both the left and the right today often look to the Supreme Court to fight their political battles for them rather than engage in the messy business of effectively designing and executing policy. But Roberts refused the temptation to take up that responsibility, understanding that his and the Court's reputations were at stake. In that sense, he reestablished the boundaries between the three branches of government and between law and politics. And that, above all, might be the most lasting legacy of the ACA decision.

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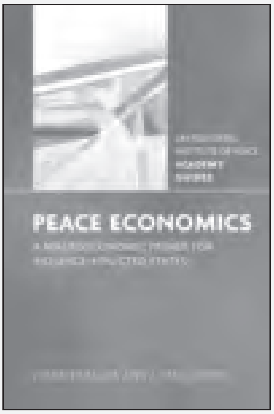

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America the Undertaxed

U.S. Fiscal Policy in Perspective

Andrea Louise Campbell

The most important debates in U.S. politics today center on the cost and the role of government. Cutting taxes, limiting expenditures, and reducing debt have become the chief concerns of Republicans, whereas Democrats generally seek to preserve or even expand government spending and are willing to raise taxes to do so. The looming expiration of the George W. Bush tax cuts at the end of 2012 and the economy's weak recovery give these debates special urgency, as decisions made in the next few months are likely to shape the nation's economic, social, and political trajectory for years to come.

Behind each party's position lies not only a particular collection of interest groups but also a story about what the government's role in the U.S. economy is and what it should be. Democrats think Washington can and should play a more active part, using taxation, regulation, and spending to keep the economy growing while protecting vulnerable citizens from the ravages of volatile markets. Republicans, in contrast, think Washington already does too much; they want to scale government back to liberate markets and spur economic dynamism.

When mulling these stories, it can be useful to put U.S. fiscal policy in perspective. Compared with other developed countries, the United States has very low taxes, little redistribution of income, and an extraordinarily complex tax code. These three aspects of American exceptionalism deserve more attention than they typically receive.

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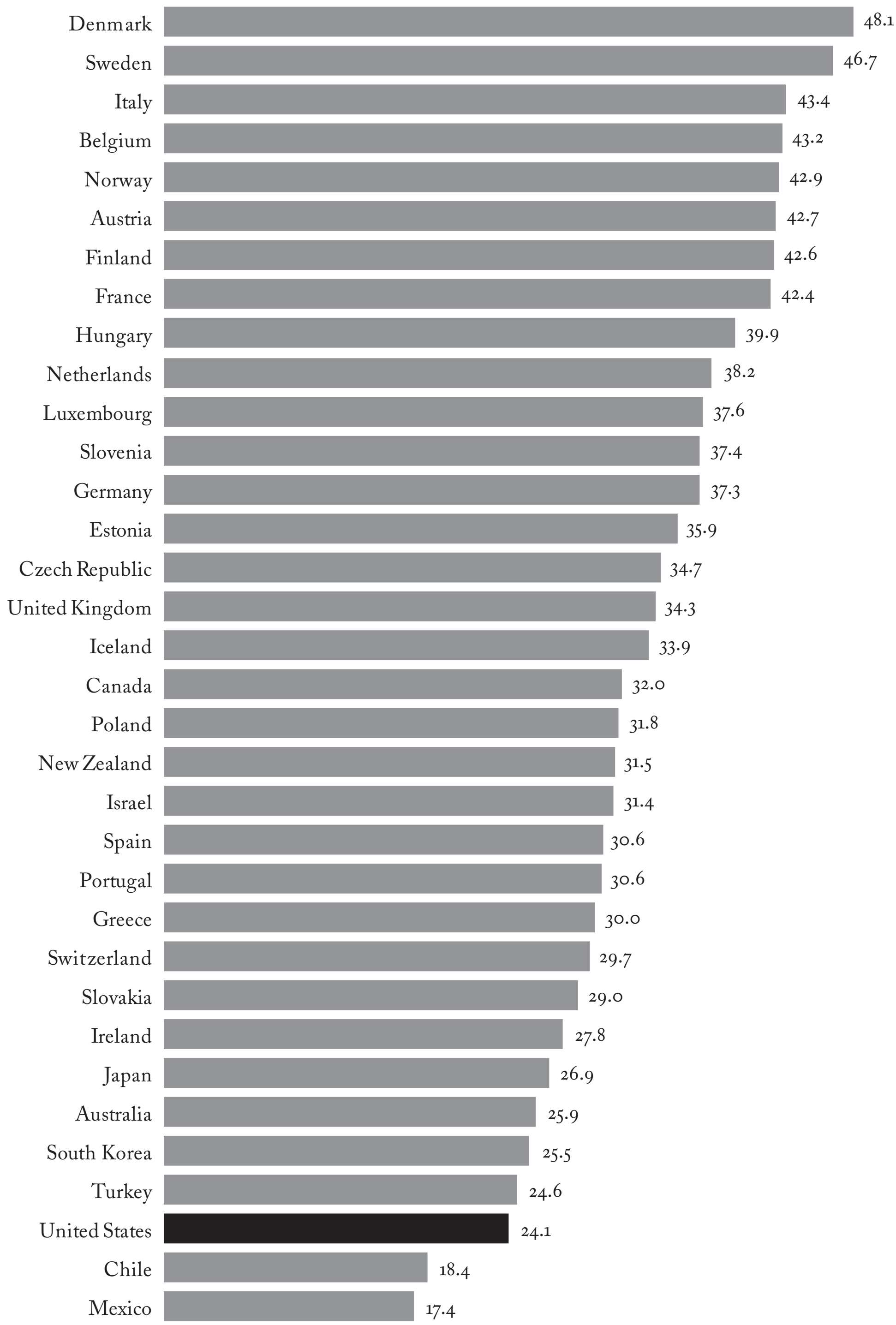
EXTREMELY LOW AND INCREDIBLY CONSISTENT

THE FIRST striking feature of the fiscal state of the United States, when compared with those of other developed countries, is its small size. As of 2009, among the 34 members of the Organization for Economic Cooperation and Development (OECD), a collection of the world's most economically advanced democracies, the United States had the third-lowest ratio of taxes to GDP (see chart). But it is important to look at pre-recession data, which better reflect long-term trends. In 2006, before the financial crisis struck, OECD tax statistics showed that total taxes in the United States—at all levels of government: federal, state, and local—were 27.9 percent of GDP, three-quarters the percentages in Germany and the United Kingdom and about half of those in Denmark and Sweden. Among the rich democracies in 2006, only South Korea had lower taxes.

The reason for this discrepancy is not that the United States has lower personal income tax revenues than its OECD counterparts. In fact, in 2006, personal income taxes at the federal, state, and local levels in the United States came to 10.1 percent of GDP, just above the OECD average of 9.2 percent. Instead, the disparity results from the low effective rates—or nonexistence—of other forms of taxation. To take one example, in 2006, the U.S. corporate income tax at all levels of government collected 3.4 percent of GDP, compared with an average of 3.8 percent across the OECD. During that same year, according to the OECD, U.S. social insurance taxes brought in 6.6 percent of GDP, compared with an average of 9.2 percent among the OECD nations. Yet the biggest difference between the United States and other OECD countries is in consumption tax revenue. Most U.S. states have sales taxes, and the federal government maintains excise taxes (taxes on such goods as alcohol, cigarettes, and fuel) and customs duties (taxes on imported goods). Yet none of those taxes currently collects the same amount of revenue as a value-added tax (VAT) would (a VAT is a consumption tax that collects revenue from the value added by each business at each stage in the chain of production of a given product). OECD statistics show that VATs bring in an average of 6.7 percent of GDP among the OECD nations, accounting for the majority of the difference in total tax revenues between the United States, which does not have a VAT, and the rest of the OECD.

Total Tax Revenues as a Percentage of GDP in the Industrialized World



SOURCE: Organization for Economic Cooperation and Development, 2009.

U.S. tax revenue is not only low but also consistently low, having equaled roughly the same share of the economy for 60 years. Since the tremendous growth of the federal government during World War II, federal tax revenues have hovered around 18 percent of GDP. This stability has also proved to be true of state and local tax levels, which have fluctuated between eight and ten percent of GDP over the same period. Over that time, taxes in the other OECD countries have grown more than in the United States. In 1965, total tax revenues stood at about 25 percent of GDP in the United States and across the rest of the OECD. But by 2000, tax revenue represented 30 percent of GDP in the United States and 37 percent in the rest of the OECD. The enacting of VATs throughout the OECD during the 1960s and 1970s accounts for much of the difference. It also accounts for the steadiness of European tax revenues through the global financial crisis. By 2009, total tax revenues had dropped to 24 percent of GDP in the United States, but they had fallen just two points, to an average of 35 percent of GDP, in the other OECD countries.

> The United States currently taxes top earners at some of the lowest effective rates in the country's history.

Although tax receipts have composed approximately the same share of GDP for decades in the United States, their composition has changed. In particular, the corporate tax has plunged as a source of federal revenues, from 30 percent in the 1950s to ten percent today. As Republicans are quick to point out, the United States does have one of the highest statutory corporate tax rates in the developed world. Combining the federal and state levels, the top rate of these taxes is 39 percent, compared with an average of 36 percent across the G-7 and 31 percent across the OECD. Yet as with the individual income tax, the United States applies these statutory rates to a narrower base of taxpayers than other advanced countries do, due to various corporate tax credits and breaks, such as the accelerated depreciation of machinery and equipment and the deferral of taxes on income earned abroad. As a result, according to a report issued by the U.S. Treasury Department, between 2000 and 2005, on average, U.S. businesses paid an effective tax rate of only 13 percent, nearly three percent below the OECD average and the lowest rate among the G-7 countries.

Whereas corporate tax revenues have fallen, revenues from payroll taxes for programs such as Social Security and Medicare have grown. The Urban-Brookings Tax Policy Center found that these taxes rose from 23 percent of federal revenue in 1970 to 40 percent in 2010. In fact, the majority of Americans pay more in payroll taxes than in federal income taxes. This is the case in part because the United States imposes payroll taxes on all wages without the exemptions and deductions so common to individual and corporate income taxes and in part because the Earned Income Tax Credit, which helps offset the federal income and payroll taxes of low-wage workers, reduces or eliminates income taxes for many with low earnings.

Even as payroll tax revenues have risen, the individual income tax, which in 2010 accounted for 42 percent of national revenue, has remained the main source of federal income. According to the Urban-Brookings Tax Policy Center, for decades prior to the Bush tax cuts of 2001–3, despite many alterations to tax bases and rates, the individual income tax provided a steady and large percentage of federal revenue. That is because the government tended to compensate for changes in rates by expanding or shrinking the tax base when necessary. During the 1970s, the tax code featured 25 income brackets and a top rate of 70 percent. Legislation passed during Ronald Reagan's presidency reduced the number of brackets to just two, dropped the top rate to 28 percent, ended a number of tax breaks, and pegged the brackets to inflation, ending so-called bracket creep, in which inflation forced taxpayers into higher tax brackets even though their real incomes stayed flat. President George H. W. Bush brought the top rate back up to 35 percent, and President Bill Clinton further raised it to 39.6 percent, but each administration added a number of new tax breaks, from an expansion of the Earned Income Tax Credit to a credit for a child's tuition. The Bush tax cuts reduced taxes on capital gains and dividends and on estates and cut the top tax rate yet again, to 35 percent.

The largest tax reductions from these changes went to high-income households. In fact, the United States currently taxes top earners at some of the lowest effective rates in the country's history. Data from the Internal Revenue Service (IRS) show that the top one percent of taxpayers paid an average federal income tax rate of

23 percent in 2008, about one-third less than they paid in 1980, despite the fact that their incomes are now much higher in both real and relative terms. Although the rich enjoyed by far the largest tax cuts, the middle class is also paying lower taxes. In 2011, the effective federal income tax rate for a family of four with a median income was just 5.6 percent, compared with 12 percent in 1980. And because of the Earned Income Tax Credit, about 40 percent of low-income U.S. households do not pay any federal income tax.

Altogether, the adoption and continuation of the Bush tax cuts has slashed federal revenues by about three percent of GDP, to levels not seen since shortly after World War II. As a result, the individual income tax now constitutes a smaller share of the economy than it did 30 years ago, falling from 10.4 percent of GDP in 1981 to 8.8 percent in 2005. By permitting extensive loopholes, failing to create effective consumption taxes, and cutting individual income taxes, the United States has created a tax system that collects far less revenue relative to GDP than many of its OECD counterparts.

UNEQUAL SPREAD

On the surface, U.S. tax policies seem quite progressive. The individual income tax, for example, is scaled to match relative earnings, so that those who take in less income pay less in taxes and those who earn more income pay more in taxes. And as mentioned above, the United States has not implemented a VAT, which is considered regressive because lower-income households tend to spend everything they earn, meaning that the VAT takes a greater share of their earnings than it does for high-income households, which spend only part of their incomes and save the rest. But appearances can be deceiving unless fiscal policy and government spending are considered together. In Europe, regressive taxes are matched with highly redistributive states. In the United States, mildly progressive taxes are matched with a not very redistributive state. As a result, the United States experiences greater inequality than most other advanced nations, with the tax-and-transfer system doing little to alleviate it.

The Occupy Wall Street movement has cast into sharp relief the vast and growing income inequality in the United States. Analyzing

IRS data, the economists Thomas Piketty and Emmanuel Saez have found that the share of total income going to the top one percent of earners—those with annual incomes of $400,000 or more—increased from nine percent in 1970 to 23.5 percent in 2007. The 2007 amount represented the highest level in the United States since 1928 and exceeded those for Europe and Japan that year, where the share going to the top one percent of earners was 11 percent in Germany, 9 percent in Japan, 8.7 percent in France, and 5 percent in the Netherlands. Although the 2008 financial crisis reduced the incomes of the top one percent in the United States by a fifth, by 2010 their earnings had largely recovered. And wealth is even more concentrated than income. According to the economist Edward Wolff, in 2007, the top one percent in the country earned just over 20 percent of all income but held more than 30 percent of all wealth.

As the top has risen, the bottom and the middle have faltered. Congressional Budget Office data show that between 1979 and 2007, before-tax incomes increased by 240 percent for the top one percent but by just 20 percent for the middle fifth of earners and by ten percent for the bottom fifth. Although the bottom 90 percent lost less income than the top one percent as a result of the financial crisis, their earnings have not recovered as much as those of the top earners. In fact, according to Saez, average income in the bottom 90 percent remains at the lowest level since 1983. This dearth of earnings exists in large part thanks to the prevalence of low-wage work in the United States compared with other advanced countries. The Center on Budget and Policy Priorities, a research and policy institute on fiscal matters, has found that almost one-third of Americans have "low incomes," meaning ones below 200 percent of the poverty line. By analyzing OECD data, the economist Timothy Smeeding discovered that the proportion of full-time workers earning less than 65 percent of the median wage in the United States—around 25 percent—is twice as high as in France and Germany and five times as high as in Finland and Sweden.

To be sure, other advanced democracies also suffer from high market-generated inequality. The economists Smeeding and Katherin Ross Phillips have shown that rates of market-income poverty—the proportion of people living in households with incomes that are below 40 percent of the median disposable income—are quite high across the advanced democracies. In fact, according to Smeeding and Ross Phillips, the United States' market-income poverty rate of 17.2 percent for working-age adults is only slightly higher than Germany's (14.9 percent) and Sweden's (15.8 percent) and even lower than Canada's (18.4 percent) and the United Kingdom's (25 percent). Yet unlike the United States, these countries reduce such market-generated poverty through redistribution—less through their tax systems than through their social welfare programs. Although each of these countries imposes generally progressive personal income taxes, they earn much of their revenue from regressive VATs. But these nations steer income from their VATs to wide-ranging social safety nets, thereby redistributing income more evenly across their societies. Smeeding and Ross Phillips found that after the implementation of universal transfer and social assistance programs, poverty among those aged 25 to 64 fell: to 6.9 percent in Canada, 5.9 percent in the United Kingdom, 3.5 percent in Germany, and 1.8 percent in Sweden. Meanwhile, in the United States, it remains at 10.9 percent. Working-age populations in most advanced countries pay higher taxes but receive extensive benefits from social welfare systems, meaning reduced poverty and inequality.

The United States, on the other hand, appears at first glance to have a more progressive tax system than many other OECD members—one that, by shifting tax burdens from the poor to the rich, would theoretically alleviate poverty along the same lines as redistributive programs. Yet the overall U.S. tax system is only mildly progressive. In part, that is because the United States carries out much of its redistributive effort not through social programs but through tax expenditures, that is, forgone revenue in the form of tax credits, deductions, and exemptions. By introducing such measures, the government aims to subsidize certain economic activities. For example, the interest deduction for individuals with home mortgages supports homeownership, and the tax credit for research and experimentation subsidizes corporate innovation. Such expenditures now amount to $1.1 trillion in forgone revenue per year, more than the sum raised by the individual income tax.

The problem is that such expenditures do not reallocate income and resources effectively. True, the Earned Income Tax Credit assists the working poor, and other tax breaks, such as the Child Tax Credit (a reduction in taxes of up to $1,000 for each dependent child under the age of 17, which phases out at higher incomes), benefit many middle-income households. But the majority of the largest tax expenditures help the affluent the most. The Urban-Brookings Tax Policy Center estimates that in 2011, households with incomes in the top fifth of the income distribution received two-thirds of the benefits from tax expenditures, with the top one percent receiving a quarter of them. Much of this disparity has to do with the fact that only 30 percent of tax expenditures are credits, in which the size of the break is the same regardless of income. The other 70 percent of tax expenditures are deductions from taxable income, the value of which rise at higher incomes. For example, a family paying $5,000 in home mortgage interest would receive a $1,750 tax break if it belonged to the 35 percent tax bracket but only a $500 break if it belonged to the ten percent bracket.

In addition to containing tax breaks that favor the rich, the U.S. tax code includes many regressive and flat taxes, which tend to exact more from the poor. These include the Social Security and Medicare payroll taxes, income and sales taxes in many states, and many others. When such taxes are combined with the reduction of progressive taxes for high-income households, the overall tax system—federal, state, and local—becomes only slightly progressive. This means that the share of taxes paid by each income group essentially resembles the share of income that it receives, which would not be the case in a more progressive system. According to the Institute on Taxation and Economic Policy, a fiscal think tank, in 2011, the lowest fifth of earners received 3.4 percent of total income and paid 2.1 percent of total taxes, the middle fifth received 11.4 percent of income and paid 10.3 percent of taxes, and the top one percent received 21 percent of income and paid 21.6 percent of taxes.

The United States achieves comparatively little redistribution through social programs as well, devoting less than many other advanced countries to such services. Although Social Security and Medicare reduce poverty among the elderly, working-age people receive fewer universal benefits than those in other countries, from national health insurance to paid leave for new parents. Outside of

Medicaid and food stamps, programs that have grown in recent years, most social assistance initiatives meant to aid the poor remain small and have fallen in real value over time. That is why, despite having nearly the highest per capita GDP in the world, the United States has the highest poverty rate among rich nations.

A TAXING CODE

THE UNITED STATES' fiscal state is not only small and minimally redistributive compared with those of other advanced nations; its tax code is also far more complicated. This complexity makes it much more difficult and costly for households and businesses to comply with the rules. And it undermines public trust in the system, with taxpayers fearing that those with better knowledge of how to navigate the system of loopholes, particularly the rich, get away with not paying their fair share.

To get a sense of the immense complexity of the U.S. system, consider that the Internal Revenue Code is almost 12 times as long as the New Testament. The 2012 instruction booklet for the 1040 individual tax form and the accompanying schedules is 188 pages long; the one for the "EZ" form is 43 pages. A 2003 IRS report estimated that individual taxpayers pay $18.8 billion, spending 25 hours and $149 per taxpayer, on compliance each year, mainly through payments made to accountants and agencies to help them sort out their taxes. Corporate taxes are even denser. According to the U.S. Treasury Department, large corporations spend over $40 billion annually on compliance.

The tax expenditure system is one major reason for this intricacy. Each exclusion, deduction, and credit adds another layer of complexity to the code and increases the time needed to prepare one's taxes. Taxing families rather than individuals complicates the system even more, since this method makes it difficult to calculate the proper tax withholding for each partner. Another culprit is the Alternative Minimum Tax (AMT), which is meant to prevent high-income taxpayers from using exclusions and deductions to avoid paying the federal income tax. This system requires some taxpayers to calculate their tax liability twice, once under the regular income tax and then again under the AMT, and pay whichever is higher. Although meant for those in the highest tax brackets, the AMT now affects more ordinary taxpayers because the government did not peg its parameters to inflation, and some very high earners have tax rates outside the parameters of the AMT, allowing them to pay the regular tax instead.

As the economists Joel Slemrod and Jon Bakija have noted, many peers of the United States have put in place far less complex tax systems, making compliance much easier. Several dozen countries utilize a return-free system for most taxpayers. They can do this because they tax individuals rather than families and withhold taxes from both income in the form of wages and income in the form of interest. These two features allow countries to precisely calibrate withholdings to actual tax liabilities. It is also much easier to implement such a system when governments hand out tax breaks either as credits that are equal for all taxpayers or as deductions that are set at a flat rate. In the United Kingdom, for example, the equivalent of the U.S. home mortgage interest deduction is a flat 15 percent reduction on the interest paid on the mortgage applied directly by the bank. Meanwhile, several countries, such as Australia, the Netherlands, and the United Kingdom, require any changes in tax rules to include estimates of the costs of compliance.

> The question of tax reform is a referendum on the direction in which Americans would like to take their country.

To get another sense of the difference between the United States and other developed countries, consider the subsidization of the cost of raising children. Many advanced-country governments calculate and send allowances to families with children. In the United States, however, households with children must navigate and administer a complex system of tax breaks themselves, such the Child Tax Credit and the Earned Income Tax Credit. And if they file their returns incorrectly, the IRS may fine them. That is why even many low-income families rely on tax-preparation firms, which have lobbied against periodic attempts to simplify the tax-paying process, such as having the IRS mail out draft returns for households in straightforward situations. Perhaps it comes as no surprise that when a 2003 survey by National Public Radio, the Henry J. Kaiser Family Foundation, and Harvard

University asked Americans what bothers them most about taxes, respondents were more than twice as likely to cite the complexity of the system as the amount they pay.

HOW TO PAY THE PRICE

THE CENTRAL debate in U.S. politics is whether to keep taxes, particularly federal taxes, at their current levels in the long term or emulate other advanced nations and raise them. In making this choice, Americans will undoubtedly have to prioritize some values and programs over others. But the polarized conversation about this issue thus far has clouded understanding of the actual likely consequences of each course.

If the government fails to raise more revenue, it will no longer be able to afford programs that many Americans say they want, from Social Security to Medicare. A 2008 survey of the American National Election Studies, a biennial study of national election outcomes, showed that a majority of Americans supported increased spending in such areas as financial aid for college, support for the poor, and improved public education. Yet without greater financial flexibility, the U.S. government cannot meet those demands. The consequences of the current system are thus known: the need to slash many of the social safety programs that Americans have come to depend on.

Congressman Paul Ryan (R-Wis.) has spearheaded a movement of budget hawks proposing to address this budget crisis by reducing federal spending to 16 percent of GDP by 2050 (it was 24 percent in 2011). This would represent the lowest level of spending since World War II, before Congress introduced Medicare, Medicaid, the interstate highway system, and most federal aid for education. Although Ryan's cuts might alleviate the revenue problem, low earners would bear the brunt. According to the Center on Budget and Policy Priorities, 62 percent of the spending reductions would affect low-income households, which would also face higher federal taxes due to a reduction in the Earned Income Tax Credit. Meanwhile, Ryan's plan would give those with incomes over $1 million a tax cut of $265,000, and that is on top of the Bush tax cuts already in place.

President Barack Obama, by contrast, has suggested boosting tax revenues, proposing to raise the rates of the top two tax brackets. Another way to add revenue would be to introduce new tax brackets. This would allow the government to differentiate among extremely high levels of income better than it can with the current system, which sets the top bracket at $388,350 and does not distinguish between the merely affluent and the superrich. In 2007, the top one percent paid an average federal income tax rate of 22.4 percent. As the economists Peter Diamond and Saez have noted, increasing that rate to 29.4 percent would raise one percent of GDP in additional revenue; increasing it to 43.5 percent would raise three percent of GDP and still leave the share of after-tax income for these top earners at a level that is more than twice as high as in 1970.

What, then, are the consequences of changing the tax system? The first question is whether higher taxes would harm the economy. Taxation affects economic growth in complex ways. To be sure, at very high rates, taxes can drag down the economy, and government activity and investment, fueled by tax revenues, can drive it. But the connection between relative rates of taxation and economic prosperity may not be as strong as both supporters and opponents of tax hikes think. Slemrod and Bakija found little correlation across the OECD countries between taxes as a percentage of the economy and the size of the economy itself, as measured by per capita GDP. Nor, according to their research, is there a high correlation between taxes as a percentage of GDP and the annual rate of economic growth. There is some evidence of a similar lack of correlations across time in the United States. The U.S. economy grew at a faster pace before the Bush tax cuts rather than after, and it grew more in the 1950s and 1960s than it has recently, even though taxes as a percentage of the economy were the same then as they are today. Raising taxes moderately—perhaps by a few percentage points of GDP—would certainly provide the government with much-needed revenue. And it might not have a detrimental impact on the U.S. economy, perhaps even spurring it.

Similarly, many worry that higher taxes would cause people to work less productively or spend less money. Yet there is little evidence that tax rates affect the participation of either middle- or high-income individuals in the work force. And despite higher taxes, higher earners ultimately did not spend much less during the 1990s, since the total income of the top one percent during that decade rose. Somewhat higher taxes would likely alter behavior to some extent. But with the earnings of the top one percent mostly back to their pre-recession levels, past experience suggests that a tax hike today would not severely damage the economy, and productivity might even rise with the security and investments that government spending can provide.

In proposing all these options, from reducing spending to raising revenue, policymakers are confronting the reality of U.S. fiscal policy: compared with its counterparts among the advanced nations, the United States' tax system collects little revenue, poorly redistributes that money across the population, and is mind-bogglingly complex. The decision of whether to change that system is a political one; whether and how to undertake tax reform is ultimately a referendum on the direction in which Americans would like to take their country.

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The Scottish Play

Edinburgh's Quest for Independence and the Future of Separatism

Charles King

The monument to Sir William Wallace stands near the city of Stirling, a castle town not far from the Scottish capital of Edinburgh. On blustery days when the sun peeks through the clouds, the sandstone memorial glows golden and majestic. That is exactly the effect its Victorian-era creators intended: a tower of imagined antiquity meant to evoke the spirit of a freedom-loving Scot. In the late thirteenth century, Wallace helped lead an uprising against England's King Edward I, for which he was eventually hanged, drawn, and quartered. There are no contemporary images of the hero depicted in the 1995 epic *Braveheart*, but when tourism began to boom after the film came out, enthusiasts made up their own. Until a few years ago, a bas-relief panel introduced the warrior-martyr to tour groups visiting the tower as they walked from the parking lot to the gift shop. The likeness was unmistakably that of Mel Gibson.

It is easy to snicker at the more inventive excesses of Scottish nationalism. The kilt-and-bagpipes version of Scottishness was the creation of fantasists such as Sir Walter Scott and Queen Victoria. Family tartans came about as a way of marketing Scottish woolens. Bagpipe bands were organized to keep British infantrymen in step. Even the shaggy Highland cow, with its ginger hair and barbaric

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appeal, was a feat of nineteenth-century genetic engineering that would have been a curiosity to cattle drovers of ages past.

Yet Scottish nationalism is alive and well—and a more powerful force now than at virtually any time since Wallace's day. The question of Scotland's place in the United Kingdom is currently the single most pressing issue in British politics and a point of growing concern across Europe. The Scots opted for their own regional government in 1997, and a referendum planned for the fall of 2014 will offer them the chance to create their own country, a goal to which the Scottish National Party (SNP), the majority faction in Scotland's parliament, is expressly committed.

Rather than staking their claim on ancient heritage or minority rights, however, modern Scottish nationalists offer a novel argument for independence: that the people of Scotland embrace political and social values that set them apart from the inhabitants of England, Wales, and Northern Ireland. Alex Salmond, the leader of the Scottish government, has said he is campaigning "for independence not just as an end in itself, but as the means by which the Scottish economy can grow more strongly and sustainably; by which Scotland can take its rightful place as a responsible member of the world community; and by which the Scottish people can best fulfill their potential and realize their aspirations." The precise wording and legal status of the referendum are still being worked out, but Conservative, Liberal Democratic, and Labour members of parliament in Westminster agree that there is little they can do to dissuade the Scottish government from organizing such a vote.

Opinion polls suggest that the Scots are unlikely to approve independence outright. Instead, they will probably settle for some form of "enhanced devolution," an increase in the considerable policymaking power granted to Scotland over the last decade and a half. But the rise of Salmond's SNP has sent an unexpected shudder through British political life. The outcome of Scotland's vote will also reverberate throughout Europe, setting a precedent for dealing with fundamental questions of governance and sovereignty. What kinds of units deserve self-determination, especially when they base their claim not on minority rights but on the simple desire to do things their own way? What options are open to democratic polities that seek to counter secession when military force is unimaginable? The question of Scotland's future is not just about the durability of the United Kingdom. It is also about the uses of quiet maximalism—the way in which astute regional parties, aided by creaky central institutions and unimpassioned opponents, can unbuild a workable country while no one seems to be looking.

DEMOCRACY GOES TO HOLYROOD

UNTIL THE 1990s, when the modern Scottish independence movement gained steam, Scots were often dismissed as 90-minute nationalists: people who displayed their identity mainly during soccer matches against England and Wales. But the roots of Scottish nationalism run deep.

The crowns of England and Scotland were joined in 1603, and separate parliaments in London and Edinburgh voted for merger in 1707. Thereafter, Scots served loyally throughout the empire as British soldiers, merchants, and administrators. At the same time, Scotland has also been home to much discontent. In 1745, Charles Edward Stuart, the son of a Catholic pretender to the British throne, made common cause with Highland clans and sought to win back the crown in the so-called Jacobite rebellion. In the nineteenth century, the Free Church movement among Scottish Protestants challenged London's sovereignty over religious affairs. After World War I, dockworkers rioted in Glasgow and other cities, stoking fears that Marxism, not nationalism, would be the ideology that would unite working-class Scots in the new century.

Few of these sources of dissent have had real staying power. Dyed-in-the-wool Jacobites survive mainly among Americans who attend Highland games and enroll their children in bagpipe classes. The Church of Scotland suffers from the same waning membership that has bedeviled its sister congregation, the Church of England. And although Scottish voters have leaned consistently to the left over the last century, that tradition has actually cemented Scotland's place in British politics. Successive Labour governments in London have depended on Scottish support in parliamentary elections, and Conservative and Liberal Democratic challengers have shaped

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their platforms with a view to chipping away at Labour constituencies north of the border.

In 1979, London consented to a vote on devolving greater regional power to Scotland, but the move was more the product of electoral politics than of nationalist agitation. The SNP had achieved major gains in the general election of October 1974, and both Labour and the Conservatives wanted to demonstrate that public support for the cause of "home rule" remained weak. In the referendum, more Scots voted for devolution than against it, but with a lackluster turnout, the measure failed to attract the required 40 percent of eligible voters.

Scotland is careering toward a vote on its place within the United Kingdom with little real sense of the implications for itself or the rest of Europe.

After 1979, reveling in the lost cause became as much a part of Scottish nationalism as remembering a glorious past or imagining a different future. Things changed in the 1990s, however. As Tony Blair's Labour Party sought to capture the political center, the SNP discovered a new strategy. The legacy of Margaret Thatcher had pushed the United Kingdom's major parties to the right, the SNP now argued, and the union had remade itself in ways that alienated the progressives of the north. Calculated nostalgia came to define the Scottish cause. The SNP looked back at the pre-Thatcher 1970s not as a time of labor unrest and industrial decline but as one of ample state-sponsored pensions, quality medical care, and dignified public housing.

This was, to say the least, a charitable way of remembering that era, but it provided the SNP with an ideology that was at once tradition-laced and forward-looking. Out-lefting the left became the core element of the SNP's strategy; its rallying cry was a postmodern species of nationalism that was multicultural, social democratic, and pro-European. In the short term, however, the party platform mattered less than the political context. British electoral politics once again became the vehicle for Scottish interests. In 1997, the Blair government, seeking to strip the SNP's platform of its key plank and ensure long-term Labour victories in Scotland, organized a new referendum on devolution. Three-quarters of Scottish voters approved the restoration of a regional parliament, and two years later, the new assembly took up quarters in the Holyrood section of Edinburgh.

Elections to the Scottish parliament initially rewarded Labour and the Liberal Democrats, the traditional winners in Scottish constituencies. But voter discontent with the governments of Blair and Gordon Brown, along with the second wind that devolution gave to the SNP, transformed the electoral landscape. After the 2011 elections to Holyrood, Scottish nationalists emerged with a set of advantages they had never before enjoyed: a majority of seats in the regional parliament, executive control of Scotland's government, and a message that emphasized the welfare state over ethnic heritage. They also had a standard-bearer in the person of Salmond, arguably the most gifted political strategist of his generation. The result has been a region careering toward a vote on its place within the United Kingdom with little real sense of the implications for itself, its present country, or the rest of Europe.

THE PARADOXES OF INDEPENDENCE

As they make their case for independence, SNP leaders have found themselves in the difficult position of talking up the importance of a referendum while also downplaying the significance of the result they hope to attain. Salmond has repeatedly affirmed the right of the people of Scotland to determine their own fate, but he has insisted that the social union between Scotland and the rest of the kingdom—ties of history, language, and culture—will endure long after the political union vanishes. Moreover, with a sovereign Scotland still firmly planted in the European Union and presumably NATO, he argues, the costs of dissolving the United Kingdom would be small.

Holyrood and Westminster are gearing up for the tense, protracted, and complex negotiations that will inevitably follow the 2014 ballot. Even if the SNP fails to garner an outright majority for full independence, the mere act of holding a referendum will represent a victory in itself. Scotland will have established its right to organize the plebiscite and proved that sizable numbers of Scottish residents support greater empowerment. The SNP will also have gained a leg up

in future elections for the Scottish parliament, the British parliament, and the European Parliament—all venues in which it will continue to make the case for secession.

The race to 2014 has already spurred action in London, with recent legislation granting tax-raising power to Holyrood. Still, no concession from the British government is likely to slake the nationalists' thirst for a referendum. Building what the SNP calls "a culture of independence" has defined its behavior as a governing party, and it will spend the next two years in permanent campaign mode. Such determined advocacy will cloud the ability of Scots to make a clear-eyed assessment of the costs and benefits of leaving the union.

Conditions in Scotland today are mixed. On some indicators, such as child poverty, Scots have it better than most other Britons. On others, such as diet, they have it worse. It is probably better to be old in Scotland than in England, given the generous long-term health-care benefits north of the border. But you will be older for shorter: life expectancy is lower there, substantially so in the city of Glasgow, where men in the poorest neighborhoods die around a decade earlier than men in other parts of the United Kingdom.

How this picture might change in an independent Scotland depends on what Scotland would take with it if it exited the union. SNP leaders claim that revenues from North Sea oil and gas rightfully belong to the people of Scotland, where the bulk of the United Kingdom's offshore fields actually lie. If it got a fair share of these resources—90 percent, say—Scotland would become one of the richest countries in the world in terms of per capita GDP. And if more money flowed directly to Edinburgh, Scotland could better address some of its basic development challenges, such as a weak industrial sector and deep-rooted urban poverty.

The SNP paints a vision of an independent Scotland that would be fairer, greener, and more progressive, yet still integrated with its neighbors. People would move freely across the border, and the Scots would continue to share the crown, a currency, and a common defense with the rump union of England, Wales, and Northern Ireland.

But achieving this appealing vision of postmodern statehood would require hardening the very walls that Scots have been told will fall away after independence. Rather than simply harmonizing tax and regulatory regimes with the rest of the union, Scotland would have to create entirely new ones designed to ensure that revenues and decision-making power stayed in Edinburgh. The government would presumably keep in place the policy of providing tuition-free college educations to Scottish residents but not to students from England or Wales, who must pay out of pocket to attend Scottish universities. It would have to establish a new state-funded pension scheme and development fund to channel resource revenues to Scottish workers, while ushering non-Scots out of the queue. Keeping money and people in Scotland is precisely the point of independence, yet the realities of what this would entail are at odds with the SNP's internationalist tone.

The prospect of independence also raises thorny questions about foreign and defense policy. British defense reform has already produced a theoretically separable force, the Royal Regiment of Scotland, through the amalgamation of smaller units. But the SNP, which opposes nuclear weapons, has not said what it plans to do about the United Kingdom's nuclear-armed submarines stationed near Glasgow. Given this murkiness, it is not surprising that polls show ordinary Scots to be unenthusiastic about full independence. Scottish support for secession generally hovers in the range of 30 to 39 percent, but around 70 percent of voters say they would opt for maximum devolution, or "devo-max": substantially increased powers for Holyrood short of full sovereignty. Overall, Scots seem to believe that independence would reduce their personal incomes and job security and lower Scotland's standing in the world—hardly a rousing endorsement of the SNP's plans.

LONDON CALLING?

REGARDLESS OF what happens over the next two years, the lasting result will be the further devolution of power to Scotland. Whether that shift ends up drawing the union tighter or stoking nationalist ambitions will depend more on Westminster than Holyrood. Successive waves of constitutional reform have transformed the United Kingdom into a de facto federation—but one with few of the legal and political mechanisms that allow other democratic federations to function and survive.

Typical federal systems involve constant bargaining among multiple levels of governance. States or provinces generally push for more power; central governments often resist. To keep things together, the federal government has to convince political elites on the periphery that they have a stake in what happens in the national capital.

Devolution in the United Kingdom has not been accompanied by creative thinking about how to achieve that goal. Parliament has reasonably empowered some of the kingdom's historic units, but this process is not just a matter of local governance; it affects the very foundations of British political life. Giving Holyrood what it wants without reforming central institutions would only widen the divide between Edinburgh and London. The result would be the weakening of alternative political voices north of the border, as the SNP cemented its long-term electoral dominance, and an SNP faction in the British parliament that acted more like ambassadors to a foreign country than members of a united legislature.

Secessionists have differentiated Scotland from the rest of the United Kingdom by embracing values, not nationality, as its defining principle.

Such an outcome may be nearly inevitable, however. Political diversity in Scotland will probably suffer no matter what happens in 2014, since the SNP desires a stable majority in the Scottish parliament whether Scotland is fully independent or merely more sovereign. The pro-union cause will likely get weaker, given that Labour and Liberal Democratic politicians, especially those trying to protect their dwindling Scottish constituencies, are uncomfortable wrapping themselves in the Union Jack. Prime Minister David Cameron, for his part, must be aware of a tempting possibility: that saying goodbye to Scottish voters could tip the House of Commons toward a durable Conservative majority.

Given these perverse incentives, it might turn out that the United Kingdom has been mistaken about its identity all along: a monarchy that became a federation while dreaming it was a union and, in the dreaming, simply ceased to be. Over the long term, the rise of the SNP has made the end of the United Kingdom a thinkable proposition. And that fact, even beyond the outcome of the referendum, has been the chief source of interest in Scotland's example beyond the British Isles.

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SCOTTISH LESSONS

ALTHOUGH THE SNP is staying focused on the next two years, its leadership has talked up the wider meaning of the Scottish case. "An independent Scotland could be a beacon for progressive opinion south of the border and further afield," Salmond said in January. He went on to argue that progressives should make policy "according to the specific circumstances and wishes within the other jurisdictions of these islands and beyond." Salmond's careful language masks a revolutionary understanding of self-determination: that short-term policy differences provide sufficient cause for politicians to lead their regions out of existing states.

Salmond regularly cites the distinctions that now obtain north of the border, from ancient ones, such as Scotland's unique legal system, to modern ones, such as its alcohol-pricing plan that discourages overdrinking. But given that the SNP has rejected the shortbread-and-tartan version of Scottishness, the case for independence ends up sounding self-serving. Social Democrats of the world should unite, the argument seems to go, by carving out their own pieces of real estate, the chief outcome of which will be to guarantee permanent governance by social democratic parties.

In this sense, Scotland offers both a novel philosophy of self-rule and a window onto the way that nationalism really works. Independence movements come about not because every member of an ethnic minority wakes up one day and decides to wave a flag or, worse, shoulder a rifle. They are instead the product of calculated moves by political elites within existing institutions. They usually begin with the simple assertion that local laws should take precedence over those devised by distant legislators. They progress toward more radical demands for control over local natural resources or an end to military service beyond one's own frontiers. Their culmination is marked not by the roar of celebration but by the whimpering realization in the old capital that the benefits of staying together are just no longer worth the costs.

The single greatest predictor of countries' starting down this path is not ethnic difference, a long history of grievances, or political oppression. Rather, what gives rise to independence is the presence of some set of defined institutions—a local parliament, an administrative structure, a separable military force, even lines on a map distinguishing one piece of land from another—that allow nationalists to translate aspirations into political action.

Of course, another commonwealth democracy has long experience with managing nationalist demands. Like the United Kingdom, Canada had its own provincial secessionists who were progressively empowered by the federal capital. But the Québecois quest for independence involved a religious and linguistic minority seeking to secure its status against perceived English-speaking dominance. Canada's federal-level commitment to bilingualism and multiculturalism reduced the cost of remaining inside the federation. New waves of immigration to Quebec—from Africa, Asia, and elsewhere—complicated the old dividing lines between Anglophone and Francophone interests. Economic growth gave Québecois voters a continuing stake in the status quo.

Scotland is different. Not only is it difficult today to define an "ethnic Scot," but the SNP has understood that its greatest hope for differentiating Scotland from the rest of the United Kingdom is to embrace values, not nationality, as the region's defining principle. Although the Scottish government publishes official documents in Gaelic, it also translates them into Chinese and Urdu. The year 2014 will be the 700th anniversary of the Battle of Bannockburn, when a Scottish army famously routed the English, but journalists more often note this coincidence than politicians. The challenge for the SNP will be to stay atop the narrow isthmus between touting multiculturalism and democracy and claiming that these values are best realized outside a kingdom where both are already sacred. The challenge for Westminster is to care enough to make a passionate and convincing case for a fourth century of united government, rather than just betting that "devo-max" will be enough to kick the problem down the road.

A nationalist movement seeks its own country. A nationalist party seeks a country that will keep electing it. The SNP, aided by the history of devolution itself, has structured the debate in ways that make it difficult for voters to distinguish these two demands. Scots are just now realizing that the issues devolution was meant to address—development, jobs, education—will soon be overshadowed by a campaign to convince them of their own natural nationhood. The troubling lesson is that secession, even shorn of its ethnic trappings, can still be an alluring strategy for regional parties dissatisfied with the policies of their central governments.

In an age of tough austerity programs and unpopular bailouts, that strategy is one that Belgium's Flemings, Spain's Catalans, Italy's Piedmontese, and Romania's Transylvanians can take to heart. The SNP's nationalism is certainly more palatable than the blood-and-soil variety. But its example is doubly unfortunate. To restive regionalists, Scotland is a tutorial in how a secessionist party can win by understanding existing institutions better than the people who should be most committed to preserving them. To central governments, it is a cautionary tale about surrendering too much sovereignty to provincial elites. Scotland once embodied the belief that local distinctiveness, united governance, and democratic practice were mutually reinforcing. It would be a shame if the Scottish model became something else: a handbook for transforming muscular regionalism into territorial separatism.

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Arms Away

How Washington Squandered Its Monopoly on Weapons Sales

Jonathan Caverley and Ethan B. Kapstein

Over the last two decades, the United States has enjoyed an unrivaled competitive advantage in the production and export of advanced conventional weaponry. The collapse of the Soviet Union and the breakup of the Warsaw Pact led to sharp reductions in Russian defense spending and a drop in Moscow's arms transfers to regional allies. Simultaneously, globalization rewarded firms with economies of scale, allowing U.S. defense contractors to capitalize on their size and on large orders from armed forces around the globe. The formula for success was simple: by producing a range of affordable yet sophisticated weapons, the Pentagon and its contractors would crush any rivals. Domination of the global arms trade, and the economic and geopolitical benefits that came with it, was the United States' to lose.

But that advantage is fading. In the 1990s, the United States controlled 60 percent of the global weapons market. Today, it is responsible for only about 30 percent. By focusing on cutting-edge technology and developing excessively expensive defense systems, Washington has left the door open for foreign competitors to market practical weapons at an affordable cost. Consequently, Russia has

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resurged as an arms merchant, and a host of other countries, such as China, Israel, and South Korea, are becoming important suppliers.

No program embodies the missteps threatening the U.S. defense industry better than the F-35 Joint Strike Fighter, which even its most optimistic proponents now admit is a procurement disaster. At the end of the Cold War, defense planners conceived of the F-35 as a jet that would reshape the marketplace. Designed to take the place of three different U.S. military aircraft, the F-35 would be produced for many years at home. That, in turn, would enable the plane to be sold at a relatively low cost abroad, since the up-front development expenses would be amortized over its long production life. The best that foreign manufacturers could do, so the argument went, was scrap their indigenous weapons development plans, retool their operations, and become part of the F-35's global supply chain.

But after 9/11, constraints on U.S. defense budgets loosened, and the price of the F-35 skyrocketed as it became one of the United States' infamous "gold-plated" weapons systems. Various U.S. military branches piled on additional technical specifications, making the F-35 a financial sinkhole. The defense procurement process is so complicated that cost estimates are extremely difficult to nail down, but the best calculations suggest that the price of the F-35 program has grown by 75 percent above the estimates made in 2001. The program is now expected to account for 38 percent of the Pentagon's procurement budget for all its current weapons programs. The ensuing sticker shock of the F-35 has led many buyers—including key allies, such as Australia, Italy, and the United Kingdom—to delay or reduce their orders.

The F-35 is hardly a unique case. According to the U.S. Government Accountability Office, half of all Pentagon procurement programs are operating beyond their budgets. But the United States' fading position in the weapons trade is more than just another blow to an already weak domestic economy (the U.S. aerospace industry employs more than 600,000 workers). In the past, the ability to arm its allies allowed the U.S. government to strengthen its friends while cashing in. By squandering its position in the international weapons market, Washington has undercut a critical tool of U.S. foreign policy.

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THE MONOPOLIST'S CURSE

After the Gulf War, it was clear to customers around the world that U.S. weapons were the best on the market. And with the United States spending more on defense research and development than the rest of the world combined, it was not surprising that U.S. firms boasted capabilities, such as stealth technology, that no one else could deliver.

But as the United States' military budgets ballooned after 2001 as Washington geared up to fight the "war on terror," defense firms and the Pentagon began to disregard weapons costs. Congress opened up its wallet, domestic demand for high-tech armaments boomed, and the financial constraints on new acquisitions eased. Flush with cash, the industry envisioned a golden era of sales to the Pentagon. Investors bought in, too. In the post-9/11 era, share prices of the major defense contractors soared.

Today's conventional arms, such as aircraft and missiles, involve highly complex feats of engineering. Because the up-front expenses are astronomical, the price can be lowered on a per-unit basis only by producing many copies. That makes exports all the more vital, since each additional sale reduces the individual price tag. Given the size of orders from the Pentagon compared with those coming from the Russian or European defense ministries, U.S. weapons programs have enjoyed relatively long life spans even when the U.S. military has been the sole customer. That fact alone should make U.S. weapons relatively less expensive on a per-unit basis.

Over the last decade, however, the United States has suffered the monopolist's curse, believing that buyers had no other alternatives. While Washington was giving carte blanche to the Pentagon as it fought wars in Afghanistan and Iraq, defense officials failed to realize that most countries could do without advanced stealth fighters or the latest combat ships. More often than not, lesser technologies are perfectly adequate. So as the prices for U.S. products rose, foreign customers began shopping elsewhere. In January 2011, for example, India decided to turn away from the U.S. firms Lockheed Martin and Boeing and instead spend $11 billion for an order of Rafale fighter jets from Dassault Aviation, a French company. This marked the first overseas sale of the Rafale, and the purchase suddenly made the plane globally competitive.

Granted, a handful of buyers can still pay for top-shelf U.S. weapons. The Persian Gulf states have kept up their orders, thanks to high oil prices and the unstable neighborhood in which they live. In 2010, for example, the U.S. Congress approved a $60 billion, ten-year arms deal with Saudi Arabia, much of which will involve the purchase of some of the most sophisticated fighter jets in the world. But even the Saudis have sought to diversify their supplier base, acquiring Eurofighter jets through the United Kingdom and threatening to purchase helicopters from Russia. More important, buyers such as the Persian Gulf states are few and far between and are growing less relevant as the United States shifts its strategic focus to Asia.

THE NEXT ARMS RACE

If the United States' sliding market share were just an economic matter, one might simply dismiss the issue by arguing that the country's defense industry, which must report to its shareholders, will soon be forced to face the consequences of its business strategy and retrench. But unlike other sectors, arms dealing has a geopolitical dimension, especially in Asia's booming export market, as well as an economic one.

When Washington inks a weapons deal, the partner country is unlikely to deploy those arms in a manner at odds with the United States' interests, which would threaten its access to those very weapons. So the more weapons Washington sells, the more control it has over security decisions made abroad. More specifically, Washington can exploit its market power to advance important foreign policy objectives. In 2005, for example, Washington suspended Israel's access to the F-35 program to force Jerusalem to stop selling unmanned aerial vehicle parts to China. The United States has used similar tactics to prevent Brazil and Spain from selling aircraft to Venezuela.

With Washington's interests turning toward Asia, arms sales make it possible for the United States to arm its Pacific allies and,

REUTERS / REGIS DUVIGNAU

Outgunned: assembling Rafale fighter jets near Bordeaux, France, October 2006

at the same time, keep China isolated. This can be done in a direct manner, such as when the United States uses access to its domestic arms market to encourage European Union states to maintain the weapons embargo on China that dates back to the 1989 Tiananmen Square killings. But there is an indirect route, as well. By using its competitive advantage to shrink Russia's export market, the United States could make China's principal arms supplier less appealing.

In recent years, Russia has done a particularly good job servicing weapons needs across Asia. A firm such as Sukhoi, a major Russian aircraft manufacturer, knows it cannot rely on domestic orders alone for its survival. Over the last decade, it has succeeded in selling fairly inexpensive fighter jets to countries such as Indonesia and Malaysia. European producers, too, have ramped up production. Since 1990, firms across the continent have developed at least two new fighter jets in addition to France's Rafale. Sweden has sold its Gripen single-engine fighter to countries such as Hungary and Thailand; the Eurofighter, despite being inefficiently built on four separate assembly lines across the continent, has been sold to Austria and Saudi Arabia.

Meanwhile, signs of U.S. decline in the arms sphere in Asia abound. Pakistan's largest arms supplier is now China, Singapore is acquiring French naval vessels, and for the first time in its history, the Philippines is looking to non-American aircraft sources. These countries are less interested in the newest high-tech weaponry and more interested in medium-sized arms they can afford. Washington does not sell weapons to China or Russia, of course, and India purchases only a limited quantity. South Korea, a long-standing U.S. ally, has developed a growing domestic arms industry, producing, for example, diesel submarines that it exports to such countries as Indonesia. If Washington wants its "pivot" to Asia to stick, it needs to regain the ground in the arms market that it has lost.

All these shifts could prove destabilizing. As the United States risks losing its position as a principal arms supplier in the region, producers will proliferate, because small states entering the arms business have no choice but to be export-oriented to survive and grow. In essence, they need to produce as much as possible. U.S. firms, in contrast, can be more selective in their approach to exports, thanks to the large size of the United States' domestic market. Washington can withhold supplies, reducing the amount of advanced weaponry in the world. From a security and stability perspective, that is an advantage.

SIMPLER BUT BETTER

Yet there is good news as well: many of the U.S. defense industry's competitive advantages—massive economies of scale, a research budget that still dwarfs the rest of the world's, and the proven quality of its products—will remain robust for the foreseeable future. Washington can and should leverage these advantages to dominate a global network of military products that keeps European and other mid-tier states in, Russian exports out, and Chinese defense capabilities down.

Every administration calls for reform of the Pentagon's procurement process, but the results are invariably disappointing. Instead of fighting for a total transformation, policymakers should target a few high-payoff changes. The White House (with congressional support) must force the Pentagon and its suppliers to do something they have rarely been willing to do in the past: rather than design and produce unnecessarily sophisticated weapons for domestic use, they should develop simpler and more cost-effective ones for a global market, under rigorous civilian oversight.

Increasing defense spending will not help. U.S. production runs are already far longer than those of the competition, and the experience of the past decade suggests that any efficiency gains produced by larger weapons purchases turn into little more than higher profits for defense firms and fancier weapons for the Pentagon. The secret is not to spend more money but to spend money in a better way.

Paradoxically, to increase its foreign market share, Washington also has to be willing to shop for some weapons abroad. If the Pentagon threatened to import competing products from overseas, it could force domestic manufacturers to control costs and become more globally competitive. It is important to keep in mind that once the United States decides to buy a weapon from abroad, even when much of it will be produced in a foreign country, the order's size guarantees that the United States immediately becomes the most important customer. Weapons do not have to be American made to provide American influence. Additionally, other countries will be more willing to buy from Washington if they believe that their own products will have a fair shot at the enormous U.S. market.

Flush with cash after 9/11, U.S. military contractors envisioned a golden era of sales to the Pentagon.

Consider the contract competition the Pentagon recently held to buy a relatively low-tech propeller-driven plane for the Afghan air force's counterinsurgency efforts. The U.S. Air Force reversed its decision to buy the Brazilian company Embraer's A-29 Super Tucano—a combat-proven plane used by six other air forces, which was to be built almost entirely in the United States—in response to protests from Arkansas-based Hawker Beechcraft, whose competitor plane remains in development. The likely result will be increased costs, longer delays, a product inappropriately gold-plated for its mission, an increased chance of a Taliban victory, and the alienation of Brazil, one of the world's rising powers and fastest-growing importers of conventional weapons.

As the U.S. defense industry shifts away from expensive weapons systems, it must remember that simple does not imply primitive. The weapons just have to be affordable, effective, and appealing to the global market. In addition to producing more exports, simpler products would have another advantage: they are easier to make. They are less likely to be delayed due to immature technology or revisions of their requirements by the services. Perhaps most important, however, these simpler programs would reduce the industry's and the Pentagon's informational advantages and make civilian oversight more feasible.

Ultimately, it must be civilian leaders, rather than the armed forces and the defense industry, who take responsibility for deciding which weapons the United States develops, since those choices have grand strategic consequences. The current approach of building a small number of unrivaled superweapons that few states want and that wreck the nation's defense budget is not grand strategy; it is a policy devoid of strategy altogether. The United States now develops arms so sophisticated that they will supposedly deter opponents from launching their own weapons in anger. Instead, it should focus on preventing most foreign weapons from being built at all.

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Reviews & Responses

REUTERS / JONATHAN ERNST

Protesting Arizona's controversial immigration law, May 1, 2010

Strategists and theorists from both major U.S. political parties, take heed: winning over Latinos in the future might be much harder than you think.

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Review Essay

Latin Lessons

Who Are Hispanic Americans, and How Will They Vote?

Ray Suarez

Latinos in the New Millennium: An Almanac of Opinion, Behavior, and Policy Preferences. BY LUIS R. FRAGA, JOHN A. GARCIA, RODNEY E. HERO, MICHAEL JONES-CORREA, VALERIE MARTINEZ-EBERS, AND GARY M. SEGURA. Cambridge University Press, 2011, 448 pp. $99.00 (paper, $36.99).

In June, as the U.S. Supreme Court ruled on Arizona's controversial immigration law and the Obama administration announced a significant change in U.S. deportation policies, the country's roughly 50 million Latino residents were once again transformed from a diverse collection of individuals into an ethnic bloc and then into a political issue in the 2012 campaign season. It was hardly the first time, and it will certainly not be the last, as the U.S. government and American society and political culture struggle to make sense of the country's rapidly shifting demographics.

By now, the main questions have become familiar. How many Latino voters are there? What do they care about? Are they conservative or liberal? Republicans or Democrats? Will Candidate X figure out how to appeal to them? Will they vote in November? If they overperform in the census but underperform at the polls, does it matter that Latino populations seem to be growing quickly in hotly contested swing states?

What has also become familiar is the lack of good answers to these questions, notwithstanding the many commentators, most of them not Latino, who confidently hold forth on the subject on talk radio and cable news, even though they tend to have rather modest firsthand knowledge of the country's Latino communities and, worse yet, rarely offer any hard data to ground their punditry in reality.

Latinos in the New Millennium represents a potential antidote to this vapid discourse and a data-rich corrective to the stereotypes that too often define Hispanics in the United States. Aptly

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describing the book as an almanac, its authors, a group of academic experts, have collected and synthesized a massive quantity of data on the political and personal sentiments of Latinos across all lines of national origin, citizenship and immigration status, and income and educational levels. Their findings simultaneously clarify and complicate the reductive portrait of Latinos that frames discussions of their social and political relevance.

Strategists and theorists from both major political parties, take heed: making this group yours in the years to come might be much harder than you think. Doing so will require contending with a set of contradictory qualities: progressive politics mixed with conservative values, assimilationist ideals in conflict with hardening ethnic identities, and meritocratic aspirations bumping up against the reality of academic underachievement.

ASSIMILATION REDUX

The book's hundreds of charts, graphs, and tables present data from the Latino National Survey (LNS), a strikingly thorough questionnaire given to 8,634 self-identifying Hispanic residents of the United States over the course of a nine-month period that ended in August 2006. The social scientists behind the LNS quantify the kinds of thoughts and behaviors that journalists usually explore through less rigorous methods: questions of identity, aspirations, political allegiance, and civic engagement. Perhaps most intriguing, the LNS represents an attempt to tease out just what it means that by 2042, an estimated 40 percent of U.S. residents will be able to trace their families back to the Caribbean, Central America, Mexico, or South America.

This coming demographic transformation is likely to have a far different effect on the country than did the changes wrought by earlier waves of immigration. Most of the groups of Europeans that came to the United States in large numbers between 1870 and 1920 followed a similar pattern: a steady increase of arrivals that quickly rose to a dramatic spike before gradually subsiding to a trickle. This pattern was accompanied by a shared trajectory of assimilation among the German, Irish, Italian, and eastern European Jewish immigrants who made up the bulk of those newcomers. Contact with the home country became more sporadic, use of the native language began to fall away, and, ultimately, intermarriage completed a process of acculturation that had begun when the first children born to immigrant parents headed off to an American school.

Latinos have not followed the same patterns. For one thing, their numbers have not peaked and fallen in the same manner. After Congress passed the Immigration and Nationality Act of 1965, a massive rewriting of U.S. immigration law that opened the country up to the rest of the world outside Europe, Latino populations that had long resided in the West, the Southwest, New York, and Florida were joined by millions of new Spanish-speaking immigrants. Modern transportation, telecommunications, and sheer proximity made moving to the United States from, say, Santo Domingo a very different proposition than boarding a steamship in Hamburg or Naples had been more than a century earlier. Partly for that reason, the Latino wave has never really crested; nearly 40 million Latino immigrants have come to the United States since the laws changed in 1965.

As Latinos continued to arrive in the United States throughout the 1970s and 1980s, sociologists and demographers wondered whether the relative ease of maintaining the Spanish language, visiting their countries of origin, and keeping up with news and politics back home would lead Latinos to assimilate more slowly and less fully than their European predecessors. Some predicted that Latinos would remain a distinct group in a way that European immigrants had not. Others thought Latinos would transform into just another group of "hyphenated Americans," becoming the twenty-first-century version of the twentieth century's Irish, Italian, and Polish immigrants: remaining somewhat clannish, Catholic, and family-oriented, but eventually blending into the mainstream of American life.

It is still too soon to know which forecast will prove more accurate. But one thing is clear. The fate of Latino integration will in large part be determined by a perennially fraught issue in American life: the question of racial identity.

NOT BLACK AND WHITE

Americans are frequently tripped up by "official" racial and ethnic categories, such as the ones found on census response forms. One distinction in particular provokes confusion, especially among Americans of European descent: "non-Hispanic white." The category implies that there is such a thing as a "Hispanic white," an idea that European Americans sometimes find confusing but that seems perfectly obvious to Hispanics, who tend to be far more conscious of the wide range of definitions of skin colors and facial features that exist in the Spanish- and Portuguese-speaking worlds.

The social scientists behind the LNS designed the survey to accommodate the comparatively fluid understandings of race and ethnicity found in many Latin American societies and to illuminate how Latinos have responded to the way race is generally understood in the United States, where the historically charged divide between blacks and whites seems to have produced a more rigid way of thinking about racial categories. The survey sought clues to whether Latinos in the United States have conformed to its long-standing black-white notions of race, replaced them, or subverted them. First, LNS respondents were asked, "What is your race? Are you White, Black, American Indian, Asian, Native Hawaiian/Pacific Islander, some other race or more than one?" About 68 percent answered "some other race," around 22 percent answered white, around seven percent refused to answer, and less than three percent chose one of the other categories.

Then, critically, the LNS interviewer would refine the question with this follow-up: "In the U.S., we use a number of categories to describe ourselves racially. Do you feel that Latinos or Hispanics make up a distinctive racial group in America?" Just over half of respondents said they did, with a telling gap between the generations: Latinos were considered a distinct racial group by a minority (42 percent) of those born outside the United States but by a large majority (74 percent) of those born in the United States. The book's authors see this as evidence that Latinos are indeed becoming “racialized” as they integrate into American society.

Still, other evidence underlines just how unsettled the issue of racial identity remains among Hispanics in the United States. The U.S. Census Bureau uses the vague term “origins,” rather than “race,” to describe “Latino” and “Hispanic,” and in 2010, when the census asked those with Latino or Hispanic “origins” to name their race, just over half chose white alone. In interviews I have conducted as a reporter during the past three decades, as well as in casual conversations, Latinos have sometimes told me that they indicate “white” when given this choice because, regardless of the census’ attempts at nuance, they are primarily mindful of the black-white racial binary in American culture—and they don’t consider themselves black.

But in a fascinating, if somewhat dispiriting, analysis, *Latinos in the New Millennium* reveals that the “racialization” of Latinos has as much to do with how Latinos believe they are perceived as it does with how they see themselves. A “substantial percentage of Latinos perceive discrimination,” the authors report, “and one response to this perception of being singled out because of their accent, skin color, immigrant origin or ethnic background is a strengthening of ethnic attachment and a sense that Latinos are a distinct racial group. Thus, the paradox is that even as Latinos Americanize, they may increasingly see themselves as part of a distinct ethnic or racial group.”

In this way, *Latinos in the New Millennium* offers an elegant distillation of the Latino predicament. In data set after data set, the book demonstrates how tens of millions of Latinos have integrated into U.S. society. With each successive generation, dwindling numbers of Latinos report an intention to return to Central or South America or the Caribbean. More and more Latinos apply the term “family” only to people who live mostly or entirely in the United States. And Latinos are consuming more media in English, attending high school and college at higher rates, marrying members of other groups more frequently, participating in civic life and politics, starting businesses, remitting less and less money back “home” over time, and generally embracing the American ethos of hard work, self-reliance, and a reluctance to blame failure on prevailing social conditions. Yet a tendency in the rest of the society to “racialize” Latinos, and their own tendency to pay very close attention to social hostility, seems to place a clear limit on the degree to which Latinos will be absorbed into the majority.

DEFYING LABELS

This apartness of Latinos might also be reinforced by the way in which they are treated by both major political parties as a somewhat monolithic (and slightly exotic) voting bloc, even though it is difficult to distinguish a consistent set of “Latino” political values. When pollsters with the LNS asked Latinos to name the biggest problem facing the United States in 2006, the three most common specific answers were the war in Iraq (31.5 percent), the economy (13.6 percent), and illegal immigration (11.4 percent). But when the same respondents were asked about the most important problems facing Latinos in particular, the most common specific answers were illegal immigration (29.8 percent), unemployment/jobs (12.1 percent), and education

(9.1 percent). Latinos looked at the country and saw one set of concerns, then looked at themselves and saw an entirely different one.

In the spring of 2006, the year the LNS was conducted, immigration was reignited as a contentious political issue after Congress failed to pass a bipartisan comprehensive reform bill. Tens of thousands of Latino workers took to the streets in May Day marches, and many non-Latino Americans howled at the sight of Mexican and other national flags being carried by the marchers through the streets of major cities. So it is not surprising that immigration weighed heavily on the minds of respondents to the LNS. But it is notable that they seemed to use the term "illegal immigration" when describing the problem, rather than "immigration reform" or just "immigration." The LNS did not ask respondents to explain what they meant when they said something was a problem. But it is reasonable to speculate that many respondents meant not that there were too many illegal immigrants but rather that too many immigrants were deemed "illegal."

Experts estimate that some 9.5 million people in the United States, including millions of Latinos, live in so-called mixed-status families, in which some members of a household have citizenship or legal status and others do not. These families know firsthand how slowly the immigration system can work for those trying to achieve legal residency. Those frustrations are possibly what LNS respondents were referring to when they described illegal immigration as a problem. Indeed, the LNS found that even large numbers of Cubans (who enjoy virtually automatic legal status if they make it to the United States) and Puerto Ricans (who are American citizens from birth) are sympathetic to the plight of illegal immigrants, although not by the same large margins seen among Mexicans, Mexican Americans, and Central Americans. The survey also showed that among all Latino subgroups, comfortable majorities support the creation of a path to citizenship and easier access to legal residence for those in the country illegally.

These views are in stark contrast to the rhetoric on immigration that the 2012 political season has produced, particularly during the Republican presidential primary campaign, when each GOP candidate sought to appear more hard-line on immigration than the next: Rick Santorum suggested that immigrant families should be split up in order to deport any members in the country illegally, Michele Bachmann called for the deportation of all illegal immigrants, and Mitt Romney advocated policies that would make life so unpleasant for illegal immigrants that they would choose to "self-deport."

Some Republican strategists worry about the electoral consequences of such positions. "Republicans have done a mystifying job of either ignoring or offending Hispanic voters," said Mark McKinnon, a political strategist who worked for President George W. Bush, in a recent interview with Bloomberg News. "And the consequences for the general election are likely to be significant and perhaps determinative to the outcome."

PROGRESSIVE OR CONSERVATIVE?

But the GOP's problems with Latinos might be far more deeply seated and might go beyond disagreements over a single issue.

Long before Ronald Reagan delivered his famous quip—"Latinos are Republican; they just don't know it yet"—the GOP dreamed of hitching entrepreneurial, churchgoing, socially conservative Latinos to the party for the long term.

This dream has yet to be realized. The LNS showed that two out of three Latinos nationwide either identified or strongly identified with the Democratic Party. When asked about specific issues, such as government support for low-wage workers, government-backed access to health care, the provision of in-state college tuition to illegal immigrants, and creating paths to legal status for illegal immigrants, large majorities of Latinos across all income ranges, educational levels, and national origins chose policies that more closely resemble the positions of the national Democratic Party than those of the GOP.

It should come as no surprise that Latinos, who are disproportionately dependent on government services, are skeptical of a political party devoted to shrinking the role of government. Only a tiny minority of Latino students attend private schools, for example, so the funding and effectiveness of public education are crucial to their ability to climb into the middle class and stay there. Similarly, Latinos' high degree of work-force participation—among the highest of all Americans—has not translated into reliable access to health care, and Latinos are the least insured group in the country. Correctly or not, they perceive government intervention as an answer to a health-care system that has not provided for their needs even when they work full time.

It now seems that Reagan was wrong: Latinos are not Republicans, and they do know it. That does not mean, however, that Latinos are liberals. When it comes to social issues, such as gay marriage and abortion, most Latinos still hold conservative views that are more in tune with those supported by the Republican Party.

Religiosity certainly plays a role in shaping those values. More than 70 percent of LNS respondents identified as Catholic, and the survey found that Latinos are relatively devout, with more than half of respondents attending church at least once a week. And although the proportion of Latinos who are Catholic is declining, the Protestant churches to which many Latinos are now flocking—often seeking a more expressive form of worship—are just as disapproving of abortion, divorce, and homosexuality as mainstream Catholicism.

Still, Latinos' traditionalism on moral issues might not indicate a more far-reaching embrace of social conservatism. Although popular culture stereotypes Latino men as macho brutes and Latino women as submissive caregivers, the LNS showed that Latinos hold relatively egalitarian views on gender. Firm majorities of Latinos, across most national groups and socioeconomic levels, supported women's access to birth control, agreed with the concept of "equal pay for equal work," and approved of men and women sharing child-rearing responsibilities.

It may well be that the daily realities of life in the United States have tempered the patriarchal elements of home-country cultures, a process that might ultimately affect Latino views on social or moral issues, such as abortion. On that issue, Latinos have something in common with African Americans: both groups tend to associate with churches that condemn abortion, and yet, according to the Centers for Disease Control and Prevention, black women and, to a lesser degree, Latino women make up a disproportionate share of those who have abortions. In minority communities with high levels of family dissolution, high rates of unemployment among already low-income male breadwinners, and high numbers of households headed by single women, the issue of abortion has a palpable economic dimension that is rarely reflected by the rather abstract national political debate over reproductive rights. That might explain why African Americans and Latinos tend to support politicians who are pro-choice, even though the dominant black and Hispanic religious groups disapprove of abortion. Republicans hoping to appeal to the presumed religious conservatism of Hispanics might find this complexity a difficult obstacle to overcome.

¿SÍ, SE PUEDE?

Latinos in the New Millennium closes its thorough survey of Latino attitudes and aspirations with a sobering look at Latinos' views on education. Stereotypes suggest that Latinos do not care deeply about English acquisition or educational achievement. The LNS suggests both those ideas are wrong. Latinos strongly believe that education will provide a reliable route to a better life for their children.

Survey respondents were asked, "How far would you like to see your children go in school?" Across the board, large majorities declared college was a goal. In response to the question "How far do you think your child will actually go in school?" virtually all Latinos said they believed their children would finish high school, and sizable majorities believed their children would finish college. And a surprisingly high number of Latinos believed their children would attend graduate school.

Yet those beliefs are completely out of sync with the reality of Latino students' generally poor performance in the nation's school systems. Among Latinos, as the authors put it, there is "an apparent—yet difficult to explain—disjunction. On the one hand there are high aspirations, high expectations, high levels of school engagement, and favorable ratings of schools; on the other hand there is the reality that Latino students have low rates of high school completion, college attendance, and especially graduation from college."

The book's expert authors offer no compelling explanations for this disjunction, only conceding that it deserves further study. I suspect that it might be related to a paradoxical view of the power of government that, in my reporting on Latino communities, I have found is prevalent among working-class Hispanics and more recent immigrants. Such Latinos generally do not expect a just or equitable provision of public services. At the same time, they tend to be tremendously deferential to some public and civic institutions that carry authority, such as schools and churches.

In other words, Latinos who are willing to be critical of, say, police officers or sanitation workers are often not as quick to hold educators responsible for their shortcomings. Community organizers in Chicago and New York learned this the hard way during the long struggles for school reform in those cities, when organizers found it difficult to persuade Latino communities to exert pressure on local schools and educational authorities. Latino communities' uneasy combination of cynicism and deference when it comes to public services might be keeping them from securing the resources they need to provide their children with the educational opportunities they clearly value.

Whatever the reasons for it, academic underachievement among Latinos is a challenge that is far more important than any effort to understand Latinos for short-term political gain. That is because of the degree to which the United States' success in the coming half century will depend on Latino success. In a few decades, the U.S. economy will increasingly rest on the shoulders of a largely nonwhite, heavily Latino work force providing services and care to millions of mostly white retirees. As Latinos become a larger part of the American whole, quietly consigning them to failure and isolation is hardly a recipe for national prosperity and stability. Whether they realize it or not, all Americans are now deeply invested in the successful integration of Latinos. Their own future affluence and well-being might well depend on it.

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Review Essay

Government, Geography, and Growth

The True Drivers of Economic Development

Jeffrey D. Sachs

Why Nations Fail: The Origins of Power, Prosperity, and Poverty. BY DARON ACEMOGLU AND JAMES ROBINSON. Crown Business, 2012, 546 pp. $30.00.

According to the economist Daron Acemoglu and the political scientist James Robinson, economic development hinges on a single factor: a country's political institutions. More specifically, as they explain in their new book, *Why Nations Fail*, it depends on the existence of "inclusive" political institutions, defined as pluralistic systems that protect individual rights. These, in turn, give rise to inclusive economic institutions, which secure private property and encourage entrepreneurship. The long-term result is higher incomes and improved human welfare.

What Acemoglu and Robinson call "extractive" political institutions, in contrast, place power in the hands of a few and beget extractive economic institutions, which feature unfair regulations and high barriers to entry into markets. Designed to enrich a small elite, these institutions inhibit economic progress for everyone else. The broad hypothesis of *Why Nations Fail* is that governments that protect property rights and represent their people preside over economic development, whereas those that do not suffer from economies that stagnate or decline. Although "most social scientists shun monocausal, simple, and broadly applicable theories," Acemoglu and Robinson write, they themselves have chosen just such a "simple theory and used

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it to explain the main contours of economic and political development around the world since the Neolithic Revolution."

Their causal logic runs something like this: economic development depends on new inventions (such as the steam engine, which helped kick-start the Industrial Revolution), and inventions need to be researched, developed, and widely distributed. Those activities happen only when inventors can expect to reap the economic benefits of their work. The profit motive also drives diffusion, as companies compete to spread the benefit of an invention to a wider population. The biggest obstacle to this process is vested interests, such as despotic rulers, who fear that a prosperous middle class could undermine their power, or owners of existing technologies, who want to stay in business. Often, these two groups belong to the same clique.

The authors' story is soothing. Western readers will no doubt take comfort in the idea that democracy and prosperity go hand in hand and that authoritarian countries are bound to either democratize or run out of economic steam. Indeed, Acemoglu and Robinson predict that China will go the way of the Soviet Union: exhausting its current economic success before transforming into a politically inclusive state.

This tale sounds good, but it is simplistic. Although domestic politics can encourage or impede economic growth, so can many other factors, such as geopolitics, technological discoveries, and natural resources, to name a few. In their single-minded quest to prove that political institutions are the prime driver or inhibitor of growth, Acemoglu and Robinson systematically ignore these other causes. Their theory mischaracterizes the relationship among politics, technological innovation, and growth. But what is most problematic is that it does not accurately explain why certain countries have experienced growth while others have not and cannot reliably predict which economies will expand and which will stagnate in the future.

DIAGNOSING DEVELOPMENT

Acemoglu and Robinson's simple narrative contains a number of conceptual shortcomings. For one, the authors incorrectly assume that authoritarian elites are necessarily hostile to economic progress. In fact, dictators have sometimes acted as agents of deep economic reforms, often because international threats forced their hands. After Napoleon defeated Prussia in 1806 at the Battle of Jena, Prussia's authoritarian rulers embarked on administrative and economic reforms in an effort to strengthen the state. The same impulse drove reforms by the leaders behind Japan's Meiji Restoration in the late nineteenth century, South Korea's industrialization in the 1960s, and China's industrialization in the 1980s. In each case, foreign dangers and the quest for national opulence overshadowed the leaders' concerns about economic liberalization. In their discussion of the incentives facing elites, Acemoglu and Robinson ignore the fact that those elites' political survival often depends as much on external as internal circumstances, leading many struggling states to adopt the institutions and technologies of the leading states in a quest to close economic gaps that endanger the state and society.

The authors also conflate the incentives for technological innovation and those for technological diffusion. The distinction matters because the diffusion of inventions contributes more to the economic progress of laggard states than does the act of invention itself. And authoritarian rulers often successfully promote the inflow of superior foreign technologies. A society without civil, political, and property rights may indeed find it difficult to encourage innovation outside the military sector, but it often has a relatively easy time adopting technologies that have already been developed elsewhere. Think of cell phones. Invented in the United States, they have rapidly spread around the world, to democracies and nondemocracies alike. They have even penetrated Somalia, a country that has no national government or law to speak of but does have a highly competitive cell-phone sector.

In fact, most of the economic leaps that laggard countries have made can probably be credited not to domestic technological innovations but to flows of technology from abroad, which in turn have often been financed by export receipts from natural resources and low-wage industries. China did not become the fastest-growing large economy in history after 1980 thanks to domestic invention; it did so because it rapidly adopted technologies that were created elsewhere. And unlike the Soviet Union, China has not sought in vain to develop its own technological systems in competition with the West. It has instead aimed, with great skill, to integrate its local production into global technological systems, mastering the technologies in the process. China will likely become an important innovator in the future, but innovation has not been the key to the country's 30 years of torrid growth.

What's more, authoritarian political institutions, such as China's, can sometimes speed, rather than impede, technological inflows. China has proved itself highly effective at building large and complex infrastructure (such as ports, railways, fiber-optic cables, and highways) that complements industrial capital, and this infrastructure has attracted foreign private-sector capital and technology. And just like inclusive governments, authoritarian regimes often innovate in the military sector, with benefits then spilling over into the civilian economy. In South Korea and Taiwan, for example, public investments in military technology have helped seed civilian technologies.

The book misinterprets the causes of growth in another way. Acemoglu and Robinson correctly identify state power—"political centralization," in their words—as a necessary precursor to economic development. After all, only a strong government can keep the peace, build infrastructure, enforce contracts, and provide other public goods. But in Acemoglu and Robinson's version of events, a state's strength arises from the choices made by its ruling elites. The authors forget that a state's power depends not just on the willpower of these elites but also on an adequate resource base to help finance that capacity.

In their discussion of Africa, for example, Acemoglu and Robinson recognize that the continent's lack of centralized states and long history of colonial rule have set its development far back, but they never adequately explain why sub-Saharan African governments were localized and weak to begin with. Geography has a lot to do with it. Sub-Saharan Africa's geographic conditions—its low population densities before the twentieth century, high prevalence of disease, lack of navigable rivers for transportation, meager productivity of rain-fed agriculture, and shortage of coal, among others—long impeded the formation of centralized states, urbanization, and economic growth. Adam Smith recognized Africa's transportation obstacles back in 1776 in *The Wealth of Nations*. These transport problems, along with ecological and resource-related weaknesses, made Africa vulnerable to invasion and conquest by Europe in the late nineteenth century (after the Europeans learned to protect themselves against malaria with quinine), and they still hamper development in some parts of the continent today.

Not only can unfavorable geography cripple states; it can also slow the development and diffusion of technology. Again, however, Acemoglu and Robinson leave this variable out of their equation for economic growth, failing to acknowledge that diffusion requires not only inclusive political institutions but also sufficiently low costs of adopting the new technologies. In places where production is expensive because of an inhospitable climate, unfavorable topography, low population densities, or a lack of proximity to global markets, many technologies from abroad will not arrive quickly through foreign investments or outsourcing. Compare Bolivia and Vietnam in the 1990s, both places I experienced firsthand as an economic adviser. Bolivians enjoyed greater political and civil rights than the Vietnamese did, as measured by Freedom House, yet Bolivia's economy grew slowly whereas Vietnam's attracted foreign investment like a magnet. It is easy to see why: Bolivia is a landlocked mountainous country with much of its territory lying higher than 10,000 feet above sea level, whereas Vietnam has a vast coastline with deep-water ports conveniently located near Asia's booming industrial economies. Vietnam, not Bolivia, was the desirable place to assemble television sets and consumer appliances for Japanese and South Korean companies.

The overarching effect of these analytic shortcomings is that when Acemoglu and Robinson purport to explain why nations fail to grow, they act like doctors trying to confront many different illnesses with only one diagnosis. In any system with many interacting components, whether a sick body or an underperforming economy, failure can arise for any number of reasons. The key to troubleshooting complex systems is to perform what physicians call a "differential diagnosis": a determination of what has led to the system failure in a particular place and time. Bad governance is indeed devastating, but so, too, are geopolitical threats, adverse geography, debt crises, and cultural barriers. Poverty itself can create self-reinforcing traps by making saving and investment impossible.

THE POWER OF THE MAP

To make a convincing case that political institutions alone determine economic development, one would have to conduct an exceptionally rigorous analysis to overcome the huge amount of data strongly suggesting that other factors also play an important role in development; as the astrophysicist Carl Sagan said, "Extraordinary claims require extraordinary evidence." Yet Acemoglu and Robinson do nothing of the sort. They never define their key variables with precision, present any quantitative data or classifications based on those definitions, or offer even a single table, figure, or regression line to demonstrate the relationships that they contend underpin all economic history. Instead, they present a stream of assertions and anecdotes about the inclusive or extractive nature of this or that institution. And even their own narratives betray a chronic blindness to competing explanations.

Consider South Korea's development. As Acemoglu and Robinson recognize, President Park Chung-hee, who was in power from 1961 to 1979, ran an extractive political system that still somehow managed to create inclusive economic institutions. Contrary to what the Acemoglu-Robinson hypothesis would predict—that political reform precedes economic growth—Park and his allies, although they represented an authoritarian elite, were motivated by a desire to strengthen the state and develop the economy so that South Korea could survive on a divided peninsula and in a highly competitive region. Moreover, the country's economic progress from 1970 until around 2000 had less to do with the authors' preferred explanation of homegrown innovation than with its remarkable success at reverse engineering and at manufacturing equipment for established firms located overseas. Eventually, South Korea's economic success promoted political democratization and homegrown innovation. Authoritarian-led economic progress came first.

South Korea's style of growth is far more typical than Acemoglu and Robinson acknowledge. Indeed, the pattern is so familiar that it has been given a name: "the East Asian developmental state model," or, more generally, "state capitalism." China, Singapore, Taiwan, and Vietnam all began with extractive political institutions and ended up with more inclusive economic institutions. In every case, economic development either preceded political reform or has so far not led to it. Whereas South Korea and Taiwan became democracies after the economic reforms of their authoritarian rulers, China and Vietnam have not yet democratized, and Singapore is semi-democratic. These outcomes contradict Acemoglu and Robinson's theory that inclusive political institutions pave the way for growth and that without such institutions, economies will inevitably sputter out.

The South Korean and Taiwanese examples serve as a reminder of an easy mistake to make when using Acemoglu and Robinson's framework. Inclusive political institutions in South Korea and Taiwan today are associated with inclusive economic institutions. Yet historically, the causation in both countries ran from economic reforms to political democratization, not the other way around. The fact that inclusive political and economic institutions are correlated in today's world does not mean that the former caused the latter.

There are also countries that possess both inclusive political and inclusive economic institutions yet never achieve much development, often due to geographic barriers. That seemed to be the fate awaiting Botswana in 1966, when it gained independence. Back then, the country was one of the poorest places on the planet—no surprise for a landlocked desert. But over the following decades, the country emerged as an economic success story, and it now boasts one of the highest per capita incomes in Africa.

So what changed? According to Acemoglu and Robinson, Botswana broke the mold "by quickly developing inclusive economic and political institutions after independence." The authors wax rhapsodic about the Tswana people's long tradition of political inclusion, which meant that at independence, they "emerged with a history of institutions enshrining limited chieftaincy and some degree of accountability of chiefs to the people."

Oh, and yes, did they mention the diamonds? In 1967, prospectors discovered a gargantuan deposit of diamonds that would become the world's largest diamond mine, and other discoveries soon followed. During the 1970s and 1980s, the diamond boom remade the economy of this tiny desert state, which became one of the world's largest producers and exporters of diamonds. Botswana's diamond revenues, which soared to over $1,000 per citizen, have provided more than half of all its export earnings and a substantial proportion of its budget receipts. Yet in Acemoglu and Robinson's telling, diamonds are just a sideshow.

Perhaps the authors would retort that Botswana has outperformed other diamond producers, such as Sierra Leone, and that its inclusive institutions account for the difference. Even so, critical geographic forces are still at work. Botswana is blessed with far greater reserves than Sierra Leone, earning diamond revenues of around $1,500 per person annually, compared with under $30 for Sierra Leone. Moreover, Botswana's diamond mines have been managed by a large corporation (De Beers) closely aligned with South Africa, Botswana's powerful neighbor, making it harder, perhaps, for Botswana's elites to run away with all the wealth. Such institutional details, which are at least as important as the political history of the Tswana people, go unmentioned in *Why Nations Fail.* Throughout the book, Acemoglu and Robinson see what they want to see—so much so that even when they stumble on the world's richest diamond mine, they can't seem to understand that geography has something to do with economic development.

Acemoglu and Robinson's treatment of Botswana typifies their approach. The book opens with a description of twin cities divided by the U.S.-Mexican border: Nogales, Arizona, and Nogales, Sonora. Since both cities share similar geography, the authors conclude, the relative poverty of the Mexican Nogales compared with the Nogales across the border must be explained by the difference between the two countries' political systems.

Yet the case of the two Nogaleses is about geography and nothing else. Only geography can explain why the desert city of Nogales, Sonora, even exists; why its population is ten times that of Nogales, Arizona; and why it is one of the most industrialized places in Mexico whereas its American counterpart is one of the poorest places in the United States. Nogales, Sonora, exists as an industrial city because it borders the United States and the terminus of Interstate 19. Firms invest in the city because it is an excellent location inside

Mexico to serve the U.S. market, but there is no comparable reason to invest in Nogales, Arizona, since it is a lousy place inside the United States to serve the U.S. market. The upshot is that Nogales, Sonora, is highly developed compared with the rest of Mexico, whereas Nogales, Arizona, has to rely on federal and state transfers to address its poverty. And if Interstate 19 ran through a different part of the Mexican-Arizonan border, surely Mexico's maquiladora operations would be located there instead.

At the same time, this case reveals nothing about why Mexico overall is poorer than the United States. Indeed, there are many reasons—political, geographic, and historical. The lesson of Nogales is that geography counts. Proximity to markets is powerful enough to create an industrial city in the middle of the desert, but obviously only on the Mexican side.

Yet Acemoglu and Robinson seem generally unwilling to think dynamically in spatial terms. To them, geography implies a static characteristic of a place over the centuries. That, of course, is not the point. Geography matters because it affects the profitability of various kinds of economic activities, including agriculture, mining, and industry; the health of the population; and the desirability of living and investing in a particular place. The proof is on the map. Geography has shaped not only the international division of labor and patterns of wealth and poverty but also the distribution of people and income within countries. In most countries, people cluster near coasts and navigable rivers. Drylands, highlands, and steeply sloped places are generally poorer and less populated than rain-fed coastal plains. Populations aggregate near major neighbors, leading to the Nogales phenomenon in Mexico and the high concentration of Canada's population along the U.S.-Canadian border. As technologies and world markets change, the relative advantages and disadvantages of particular places change as well. This doesn't mean that geography is unimportant, only that its importance depends on the technologies available at a given time and place.

Acemoglu and Robinson gloss over another obvious point: inclusive political institutions have presided over decidedly extractive practices conducted abroad or directed against minorities at home—indeed, some of the greatest abuses of humanity. In the eighteenth century, Europe sated its sweet tooth with sugar cane produced by slave labor in the Caribbean. Manchester's fabrics in the mid-nineteenth century were woven from cotton picked by slaves in the U.S. South. And for decades, the nuclear power industry has fueled its reactors with uranium mined by Africans and Native Americans whose jobs have left them poisoned. As the brutality of colonialism amply demonstrates, Europe's supposedly inclusive political culture stopped at the water's edge, and in the case of the United States, those principles ended at the Mason-Dixon Line or the borders of lands occupied by Native Americans.

HOW INDUSTRIALIZATION HAPPENED

The real story of development over the past two centuries would go something like this: The Industrial Revolution gained steam first in Great Britain, in part for reasons that Acemoglu and Robinson emphasize, in part thanks to the country's aggressive policies to overtake Indian textile manufacturing, and for many other reasons as well (including accessible coal deposits). By the early nineteenth century, the technologies that were first developed in Great Britain began to spread globally. The pattern of diffusion was determined by a complex combination of politics, history, and geography. In Europe, technology generally moved eastward and southward to the rest of Europe and northward to Scandinavia. Even authoritarian governments in Europe did not stand in the way for long, since fierce interstate competition meant that each country sought to keep up with its rivals. Reforms were rife, and where they were delayed, laggards often succumbed to military defeat at the hands of more industrialized foes. The need for state survival drove many elites to open their institutions to industrialization.

Outside Europe, in the nineteenth century, industrialization spread most successfully to places with good geography: countries that happened to have local coal deposits or other low-cost energy sources, industrial inputs such as iron ore or cotton, or easy access to international transport and world markets. It tended to avoid places that were disease-ridden, far from ports, mountainous, or inhospitable to farming. Imperialism mattered, too. It often stalled or stopped the process of technological diffusion, since the imperial powers (both European and Japanese) tended to prevent industrialization in their colonies, which were reserved for the supply of low-cost raw materials and low-wage labor. Local politics could also make a difference: whether the country was stable or unstable, which outside power it aligned itself with, and how open it was to foreign investment.

Industrialization became far more widespread after World War II as nations gained independence from colonial rule and its anti-industrial policies. Domestic politics played a role, as Acemoglu and Robinson rightly argue, in that despotic or unstable governments could cripple development. Yet politics was only one of many determinants of success. Many extractive states, such as China, mastered new technologies and promoted rapid economic growth that has lasted decades. The Middle East oil states became rich despite their extractive institutions. The advent of high-yield crops in the 1950s and 1960s (the "green revolution") spurred rapid agricultural development mainly in places that enjoyed reliable rainfall or were suitable for irrigation.

Sub-Saharan Africa tended to lose out. The long era of brutal colonial rule left the region bereft of skilled labor and physical infrastructure compared with the rest of the world. Development remained difficult in view of the many geographic obstacles that constrained domestic energy production, made farming difficult, sapped the health of the work force, and raised the costs of transportation both within sub-Saharan Africa and between sub-Saharan Africa and major world markets. Today, however, Africa is overcoming these problems one by one, thanks to new energy discoveries, long-awaited agricultural advances, breakthroughs in public health, better infrastructure, and greatly improved information, communications, and transportation technologies. Africa may finally be at the tipping point of rapid and self-sustaining growth.

As for the future of development, Acemoglu and Robinson's narrow focus on political institutions offers insufficient predictive help. Consider how ineffectual the theory would have been at foretelling the global winners and losers in economic development from 1980 to 2010. At the start of 1980, an economist basing his judgments of future economic performance on political and civil rights during the preceding decade or so might have foolishly bet on Gambia, Ecuador, or Suriname and almost entirely missed the rapid growth of authoritarian East Asia, most notably China. From 1980 to the present, many developing countries with undemocratic and highly corrupt governments grew faster than many poor countries with democratic and less corrupt governments. Other democracies failed as a result of economic reversals, and some authoritarian regimes became more inclusive partly as a result of their economic progress.

Despite all these problems with Acemoglu and Robinson's theory, readers will have sympathy for their approach. The authors tell a story many want to hear: that Western democracy pays off not only politically but also economically. Yet real economic life is neither so straightforward nor so fair. Authoritarian regimes sometimes achieve rapid growth, and democracies sometimes languish. Acemoglu and Robinson's story is sometimes right: politics matters, and bad governments can indeed kill development. Yet the key to understanding development is to remain open to the true complexity of the global processes of innovation and diffusion and the myriad pathways through which politics, geography, economics, and culture can shape the flows of technologies around the world.

In fact, economic development will be even more complex in the coming decades. As human-led climate change progresses, many regions could well be hit by devastating environmental shocks, such as heat waves, droughts, and floods, that are far beyond their control. Populations will migrate in reaction to uneven patterns of demographic change. Advances in information and communications technology will make new kinds of global production networks possible. In such a complicated world, explanations of growth that center on a single variable will become even less useful.

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Review Essay

Johnson the Power Broker

How LBJ Got What He Wanted

H. W. Brands

The Passage of Power. BY ROBERT A. CARO. Knopf, 2012, 736 pp. $35.00.

The fourth installment in a planned five-volume biography of Lyndon Johnson is vintage Robert Caro: enormously detailed, personality driven, power obsessed. The book begins with Johnson riding high as majority leader in the U.S. Senate during the 1950s, then follows him as he crashes to earth as vice president, shorn of power and, in power's absence, self-respect. Caro lingers on every embarrassment of the vice presidency, a period of humiliation for Johnson that ended only when President John F. Kennedy was killed and Johnson ascended to the Oval Office.

Readers who have followed Caro's work, beginning with *The Power Broker*, his biography of the grandiose New York City urban planner Robert Moses, have been repeatedly reminded that power is his primary concern. For Caro, Johnson is thus the perfect subject: a man whose entire life was devoted to the pursuit of power. Yet Caro has always been rather vague about what, exactly, power is. He is more concerned with what power does than with what it is. "Although the cliché says that power always corrupts, what is seldom said, but what is equally true, is that power always reveals," Caro writes. He uses Johnson's power as a searchlight to explore the recesses of his subject's character; he is after Johnson the man more than Johnson the leader. And because he is more interested in what power does than in what power is, he is also more interested in what power does to Johnson than in what Johnson does with power.

POWER'S PURPOSES

"A tall, gangling youth, humiliated and ridiculed during an impoverished boyhood in a tiny, isolated Texas Hill Country town," as Caro describes him in the biography's second volume, Johnson began his climb in college, shamelessly

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cultivating relationships with anyone who could help him get ahead. After graduating, he entered politics, working in Texas state government and ultimately winning election to the U.S. House of Representatives in 1937. Throughout his ascent, Johnson demonstrated an uncanny ability to accrue ever more influence and, as Caro writes, "an utter ruthlessness in destroying obstacles in that path, and a seemingly bottomless capacity for deceit, deception and betrayal." In a fraud-filled election in 1948, Johnson won a seat in the U.S. Senate, where he later became majority leader and revealed what Caro terms "a genius for manipulation and domination for the sake of his ambition, and for power for its own sake."

In Caro's telling, power's most consistent purpose for Johnson was to assuage his youthful hurt, to fill an empty place in his soul. In truth, Johnson exaggerated his childhood deprivations; he had never been as poor as he liked to let on. But whether merited or not, his sense of his own suffering inspired in him a strong compassion for others that coexisted with his more venal qualities—and represented another purpose for his power. In the Senate, Caro writes, Johnson "displayed a capacity for achievement on behalf of the dispossessed." These dual purposes—Caro uses the image of two threads, one dark and one bright—drew Johnson forward. The dark thread informed Johnson's siding with southern segregationists until the late 1950s, when the bright thread emerged during the contest for the Civil Rights Act of 1957. The fight for that measure fills 500 pages of Caro's third volume, and it shows Johnson at the peak of his legislative skills: wheedling, promising, threatening, cajoling. ("The Great Cause" is what Caro titled that section of the third volume, and the cause was indeed great. But one has to ask whether the result—a voting rights law so toothless that it barely increased black participation in southern politics—warrants all the attention.)

In the most recent volume, Caro weaves the dark and bright threads tightly together. The dark Johnson bemoans his emasculation as vice president, longing for the power that will restore his self-esteem. The bright Johnson emerges from Kennedy's shadow ready to act on behalf of those who need his help. In one scene, Johnson huddles with advisers just days after Kennedy's death. He is going to give a speech, and he wants to emphasize civil rights. The advisers explain how stubborn the resistance to civil rights is and how Johnson might break his presidency trying to win a hopeless battle. "Well," Johnson replies, "what the hell's the presidency for?"

Presumably, readers will learn Caro's answer to that question in the fifth and final volume. But given the frequent foreshadowing in the first four volumes, it is reasonable to guess that the bright thread will produce the Civil Rights Act of 1964, the Voting Rights Act of 1965, and certain measures of the Great Society, starting with Medicare. The dark thread will lead Johnson into Vietnam, with dire results for the country and for Johnson's presidency. And the two threads together will continue to define Johnson's character.

MAKE THEM WANT WHAT YOU WANT

Caro's belief in the revelatory potential of power is a perfectly appropriate viewpoint for a biographer. Caro is not a political

scientist, and the fact that his work does not fully address the nature of power is not necessarily a flaw. Yet one of the most fascinating aspects of Johnson's presidency was the way in which it displayed quite clearly what power is, what it can accomplish, and what it cannot.

In domestic politics, presidents rarely wield independent power; what they wield, if they are effective, is influence. Power is the capacity to make people do what they don't want to do; influence is the ability to make them want what you want, at least temporarily. Johnson did the latter, at times too well. Much of the Great Society legislation, for example, now seems to embody the sort of hubris that gave liberalism a bad name, and its overreach paved the way for the Reagan counter-revolution of the 1980s. But two aspects of the Great Society—civil rights reform and Medicare—have lasted, and they would have been much slower in coming without Johnson's remarkable persuasiveness. The first president elected from the old Confederacy since the Civil War, Johnson shamed his fellow southerners into accepting that the days of segregation had passed. On Medicare, Johnson beat back complaints that it was socialistic and lined up interest groups that had a stake in the single-payer program.

In international affairs, presidents do exercise power, preeminently in their capacity as commander in chief. To have at one's disposal the most formidable military in world history, with the potential to annihilate a large part of the human race, is to wield power greater than that possessed by any emperor, tsar, or dictator. And yet the most striking characteristic of U.S foreign relations during the Johnson years was the diminishing efficacy of American power.

As Caro makes clear, principally by omission, Johnson's quest for power had nothing to do with foreign policy; his passions and instincts were wholly domestic. This is odd for a man who revered President Franklin Roosevelt, in that Roosevelt's greatest contribution to the institutional power of the presidency was not the New Deal but the postwar international order he guided into existence and the agencies and bureaus he and Congress established to direct it. After 1945, every president was, whether he liked it or not, the most important single figure in world affairs. Johnson understood this at a rational level, but he didn't act on it, and he entered the White House woefully unprepared to lead the U.S. alliance system.

During the 1960s, that system was in special need of creative leadership. Johnson inherited a daunting portfolio of U.S. commitments to Cold War allies in every region of the world and to international organizations such as the United Nations, the World Bank, and the International Monetary Fund. No one had designed this new international system whole; it grew by accretion. But its foundational premise was that U.S. resources were effectively infinite: that Washington would appropriate whatever was necessary to meet the country's commitments and that the U.S. economy could deliver what the government appropriated. Presidents occasionally worried about overcommitment; Dwight Eisenhower's "New Look" emphasis on nuclear weapons over conventional arms was intended to contain defense spending lest it unduly burden the economy. But Eisenhower lost his battle with the Pentagon, and military spending continued to rise.

By the time Johnson became president, the country's commitments were greater than ever and still growing. South Vietnam was a resource sinkhole that got deeper and wider by the month. Israel was becoming an ally in all but name. The weapons judged necessary to maintain the credibility of the United States' treaty promises were growing ever more expensive. At the same time, the United States' share of the world economy was shrinking.

Every generation gains its impressions of the world at a formative age. In private life, this typically occurs in childhood. In public life, it happens in early adulthood. Johnson's generation came of age in the 1940s, when the United States dominated the global economy as no country ever had before (or would after). In 1945, the United States' industrial output roughly matched that of the rest of the world combined. This heady position owed much to the prowess and ingenuity of American industrialists and workers in constructing the most powerful economic engine in world history. But it owed equally to the efficiency of U.S. soldiers (and of the soldiers of the United States' wartime allies) in destroying the industrial plants of the Axis countries. Power is always comparative, and American power at the end of World War II was so commanding because the United States' potential competitors were so weak. Germany and Japan were devastated; France, the Soviet Union, and the United Kingdom were exhausted.

Such an anomalous condition couldn't last, and it didn't. Germany and Japan recovered to become direct economic competitors to the United States. The Soviet Union competed militarily—and hence economically, in an indirect manner, by prompting Washington to devote resources to defense that might have been employed otherwise. By the 1960s, the United States had to work harder and harder simply to keep from sliding backward.

POWERFUL, NOT OMNIPOTENT

That was the world Johnson inherited on Kennedy's assassination. It was a world he largely ignored during the transition period described in the final portion of Caro's latest volume, which concludes with Johnson's State of the Union address in January 1964. Yet through Vietnam, the world soon forced itself on his attention, ultimately derailed his domestic plans, and, in effect, ended his presidency.

That Vietnam is Johnson's main foreign policy legacy is all the more unfortunate because he proved, on the whole, an able custodian of the American-made international order. He failed as commander in chief; the Vietnam War was a debacle for which he bore primary responsibility. Yet in the grand scheme of world affairs, Vietnam turned out to be a sideshow: a tragic one, disrupting and prematurely ending many thousands of lives, but a sideshow nonetheless. The United States lost the war, but defeat produced none of the terrible global or even regional consequences Americans had fought to avert. American power had proved unavailing, but the world, after a moment of silence, yawned.

Johnson fared much better elsewhere, responding to an anti-American rebellion in the Dominican Republic in 1965, a war between India and Pakistan that same year, and the 1967 Arab-Israeli war in ways that affirmed the credibility of U.S. power without provoking the Soviets into testing it head-on. Perhaps the greatest challenge to Johnson's international leadership came from within the heart of the Western alliance. Charles de Gaulle had chafed at the dominant role of the United States in Europe since the signing of the North

Atlantic Treaty in 1949. After becoming president of France a decade later, he began to look for ways to knock the United States down a few notches. In 1966, he announced that France would withdraw its armed forces from NATO's unified command. As a result, NATO would have to remove its headquarters from Paris, and all foreign troops, particularly U.S. ones, would be forced to evacuate the country.

Johnson's top advisers urged him to strike back at the French president. "De Gaulle is trying to gut us," warned Walt Rostow, his national security adviser. Secretary of State Dean Rusk drafted a strongly worded speech for Johnson condemning the French move as jeopardizing Western unity and defense. But Johnson refused to take de Gaulle's bait. "When a man asks you to leave his house, you don't argue," he said. "You get your hat and go." Johnson understood that de Gaulle was within his legal rights in asserting French sovereignty. More to the point, he appreciated that de Gaulle's move was mostly political theater. The United States remained as vital to France's security as ever. Should a war with the Soviet bloc break out, Johnson's military advisers assured him, the French would quickly recoordinate with NATO.

In fact, they never uncoordinated. Johnson's public patience with de Gaulle spared other NATO members from having to choose sides, and it allowed French military officials, through a series of quiet agreements with their U.S. counterparts, to continue to plan jointly with NATO. The Atlantic alliance outlived de Gaulle, Johnson, and finally the Soviet Union, which had been the aim all along.

Johnson's several successes in foreign policy and his one big failure point to two conclusions. The first is that military power can easily be overrated. U.S. leaders, including Johnson, deployed massive military force in Vietnam to no avail. The second conclusion, a corollary to the first, is that diplomacy often works better than force. The immediate rejoinder to this is that the threat of force is what gives diplomacy its bite. But Johnson's experience shows that this is not always the case. When India and Pakistan went to war in 1965, both sides fought with weapons provided by the United States, a shared dependency that ultimately allowed Johnson to force the two sides into a cease-fire. But neither country worried that the United States would actually use its military force to prevent it from going to war or to stop the fighting. Likewise, U.S. diplomacy was an important factor in the 1967 Arab-Israeli war, but the specter of U.S. military force had no effect on Arab or Israeli thinking during the conflict. And if U.S. military power moved de Gaulle, it was merely to provoke him to take destabilizing actions.

Americans like to think of their country as the most powerful in the world, and so it has been for three-quarters of a century. But being the most powerful is a far cry from being omnipotent. Johnson discovered this in the 1960s and made the best of it—which, on balance, was surprisingly good. Compared to then, the United States today is even less powerful relative to the rest of the world, which makes Johnson's lesson all the more pertinent.

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Response

Iran and the Bomb

Would a Nuclear Iran Make the Middle East More Secure?

One Step Too Far

COLIN H. KAHL

Kenneth Waltz is probably right that a nuclear-armed Iran could be deterred from deliberately using nuclear weapons or transferring a nuclear device to terrorists ("Why Iran Should Get the Bomb," July/August 2012). But he is dead wrong that the Islamic Republic would likely become a more responsible international actor if it crossed the nuclear threshold. In making that argument, Waltz mischaracterizes Iranian motivations and badly misreads history. And despite the fact that Waltz is one of the world's most respected international relations theorists, he ignores important political science research into the effects of nuclear weapons, including recent findings that suggest that new nuclear states are often more reckless and aggressive at lower levels of conflict.

RATIONAL BUT DANGEROUS

Waltz correctly notes that Iran's leaders, despite their fanatical rhetoric, are fundamentally rational. Because Iran's leadership is not suicidal, it is highly unlikely that a nuclear-armed Iran would deliberately use a nuclear device or transfer one to terrorists. Yet even though the Islamic Republic is rational, it is still dangerous, and it is likely to become even more so if it develops nuclear weapons.

Iran's government currently sponsors terrorist groups and supports militants throughout the Middle East, in part to demonstrate a capability to retaliate against the United States, Israel, and other states should they attack Iran or undermine its interests. If the Iranian leadership's sole concern was its own survival and it believed that a nuclear deterrent alone could give it enough protection, then as a nuclear state, it might curtail its support for proxies in order to avoid needless disputes with other nuclear powers.

But Iran is not a status quo state, and its support for terrorists and militants is intended to be for more than just defense and retaliation. Such support is an offensive tool, designed to pressure and intimidate other states, indirectly expand Iran's influence, and advance its revisionist agenda, which seeks to make Iran the preeminent power in the Middle East, champion resistance to Israel and "arrogant powers" in the West, promote its brand of revolutionary Islamist ideology, and assert its leadership in the wider Islamic world.

Tehran currently calibrates its support for militants and sponsorship of terrorism to minimize the risks of a direct confrontation with more powerful states. But if Iranian leaders perceived that a nuclear arsenal provided a substantially more robust deterrent against retaliation, they would likely pursue their regional goals more aggressively.

Specifically, a nuclear-armed Tehran would likely provide Hezbollah and Palestinian militants with more sophisticated, longer-range, and more accurate conventional weaponry for use against Israel. In an effort to bolster the deterrent capabilities of such allies, Iran might consider giving them "dual-capable" weapons, leaving Israel to guess whether these systems were conventional or armed with chemical, biological, or nuclear material. A nuclear-armed Iran might also give its proxies permission to use advanced weapons systems instead of keeping them in reserve, as Tehran reportedly instructed Hezbollah to do during the militant group's 2006 war with Israel.

A nuclear-armed Iran, believing that it possessed a powerful deterrent and could thus commit violence abroad with near impunity, might also increase the frequency and scale of the terrorist attacks against U.S. and Israeli targets carried out by Hezbollah and the Quds Force, the covert operations wing of Iran's elite Islamic Revolutionary Guard Corps. And a bolder Iran might increase the number of Revolutionary Guard forces it deployed to Lebanon, allow its navy to engage in more frequent shows of force in the Mediterranean, and assert itself more aggressively in the Persian Gulf and the Strait of Hormuz.

To further enhance its image in the eyes of domestic and regional audiences as the leader of an anti-Western resistance bloc, a nuclear-armed Iran might respond to regional crises by threatening to use all the means at its disposal to ensure the survival of the Assad regime in Syria, Hezbollah, or Palestinian groups. And Iran might be emboldened to play the spoiler in the Israeli-Palestinian peace process by encouraging large-scale militant attacks and might try to destabilize its neighbors through more coercive diplomacy and subversion in Iraq and the Gulf states.

The growing influence of "principlist" hard-liners in Tehran makes those possibilities even more likely. The principlists' view of the world is shaped by their ideological belief in the inevitability of U.S. decline, Israeli defeat, and Iranian ascendance. They see the competition with the United States and Israel as a zero-sum game. If Iran obtains a nuclear weapon, the principlists will see it as a confirmation of their convictions and push the Iranian government further in the direction of risk and provocation.

To be sure, a nonnuclear Iran already engages in many destabilizing activities. But equipped with nuclear weapons, Tehran would likely dial up its trouble-making and capitalize on its deterrent to limit the response options available to threatened states.

THE STABILITY-INSTABILITY PARADOX

"History shows that when countries acquire the bomb, they feel increasingly vulnerable and become acutely aware that their nuclear weapons make them a potential target in the eyes of major powers," Waltz argues. "This awareness discourages nuclear states from bold and aggressive action."

In writing this, Waltz ignores a long history of emerging nuclear powers behaving provocatively. In 1950, for example, Soviet leader Joseph Stalin gave North Korea the green light to invade South Korea, thus beginning the Korean War. Stalin apparently assumed (incorrectly) that the United States was unlikely to respond because the Soviets had by then developed their own nuclear weapons. Waltz also claims that China became less aggressive after going nuclear in 1964. But in 1969, Mao Zedong authorized Chinese troops to attack Soviet forces on the Chinese-Soviet border. The attack was meant to warn Moscow against border provocations and to mobilize domestic Chinese support for Mao's revolution. Like Stalin before him, Mao was probably confident that China's recently acquired nuclear capabilities would limit the resulting conflict. (In the end, the border clashes produced a larger crisis than Mao had expected, raising the possibility of a Soviet nuclear strike, and China backed down.)

Waltz also asserts that "India and Pakistan have both become more cautious since going nuclear." But Pakistan's development of nuclear weapons has in fact facilitated its strategy of engaging in low-intensity conflict against India, making the subcontinent more crisis-prone. As the political scientist S. Paul Kapur has shown, as Islamabad's nuclear capabilities have increased, so has the volatility of the Indian-Pakistani rivalry. Since 1998, when both India and Pakistan openly tested nuclear devices, Islamabad has appeared more willing to back militant groups fighting in disputed Kashmir and to support groups that have conducted terrorist attacks elsewhere in India. Furthermore, in 1999, Pakistan sent conventional forces disguised as insurgents across the Line of Control in the Kargil district of Kashmir, triggering a limited war with India. This move was encouraged by the Pakistanis' belief that their nuclear deterrent placed clear limits on India's ability to retaliate with conventional weapons. Additionally, over the past decade, Pakistani-backed militants have engaged in high-profile terrorist attacks inside India itself, including the 2001 attack on the New Delhi parliament complex and the 2008 Mumbai attacks.

Waltz writes that "policymakers and citizens in the Arab world, Europe, Israel, and the United States should take comfort from the fact that history has shown that where nuclear capabilities emerge, so, too, does stability." In fact, the historical record suggests that competition between a nuclear-armed Iran and its principal adversaries would likely follow the pattern known as "the stability-instability paradox," in which the supposed stability created by mutually assured destruction generates greater instability by making provocations, disputes, and conflict below the nuclear threshold seem safe.

During the Cold War, for example, nuclear deterrence prevented large-scale conventional or nuclear war between the United States and the Soviet Union. At the same time, however, the superpowers experienced several direct crises and faced off in a series of bloody proxy wars in Korea, Vietnam, Afghanistan, Angola, Nicaragua, El Salvador, and elsewhere. A recent statistical analysis by the political scientist Michael Horowitz demonstrated that inexperienced nuclear powers tend to be more crisis-prone than other types of states, and research by another political scientist, Robert Rauchhaus, has found that nuclear states are more likely to engage in low-level militarized disputes with one another, even if they are less likely to engage in full-scale war.

If deterrence operates the way Waltz expects it to, a nuclear-armed Iran might reduce the risk of a major conventional war among Middle Eastern states. But history suggests that Tehran's development of nuclear weapons would encourage Iranian adventurism, leading to more frequent and intense crises in the Middle East. Such crises would entail some inherent risk of a nuclear exchange resulting from a miscalculation, an accident, or an unauthorized use—a risk that currently does not exist at all.

The threat would be particularly high in the initial period after Iran joined the nuclear club. Once the superpowers reached rough nuclear parity during the Cold War, for example, the number of direct crises decreased, and the associated risks of nuclear escalation abated. But during the early years of the Cold War, the superpowers were involved in several crises, and on at least one occasion—the 1962 Cuban missile crisis—they came perilously close to nuclear war. Similarly, a stable deterrent relationship between Iran, on the one hand, and the United States and Israel, on the other, would likely emerge over time, but the initial crisis-prone years would be hair-raising. Although all sides would have a profound interest in not allowing events to spiral out of control, the residual risk of inadvertent escalation stemming from decades of distrust and hostility, the absence of direct lines of communication, and organizational mistakes would be nontrivial—and the consequences of even a low-probability outcome could be devastating.

A VERY REAL THREAT

Because Waltz is sanguine about the effects of Iranian nuclearization, he concludes that "the United States and its allies need not take such pains to prevent the Iranians from developing a nuclear weapon." Waltz believes that the only utility of continued diplomacy is to maintain "open lines of communication," which "will make the Western countries feel better able to live with a nuclear Iran," and he argues that "the current sanctions on Iran can be dropped."

Waltz is wrong. The threat from a nuclear-armed Iran might not be as grave as some suggest, but it would make an already volatile Middle East even more conflict-prone. Preventing Iran from crossing the nuclear threshold should therefore remain a top U.S. priority. Because a preventive military attack on Iran's nuclear infrastructure could itself set off a series of unpredictable and destabilizing consequences, the best and most sustainable solution to Iran's nuclear challenge is to seek a negotiated solution through a combination of economic pressure and diplomacy. It is possible to oppose a rush to war with Iran without arguing, as Waltz does, that a nuclear-armed Iran would make the world a better place.

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Waltz Replies

In arguing that a nuclear-armed Iran would represent an unacceptable threat to the United States and its allies, Colin Kahl rejects my contention that states tend to become more cautious once they obtain nuclear weapons and claims that I minimize the potential threat of an emboldened Islamic Republic. He accuses me of misreading history and suggests that I overestimate the stability produced by nuclear deterrence. In fact, it is Kahl who misunderstands the historical record and who fails to grasp the ramifications of nuclear deterrence.

In Kahl's view, new nuclear states do not necessarily behave as status quo powers and can instead be highly revisionist. Seeking a precedent, he highlights the fact that the Soviet Union encouraged North Korea to launch a potentially risky invasion of South Korea in 1950, shortly after the Soviets had tested their first nuclear bomb. But Kahl neglects to explain the context of that decision. Some time before, U.S. Secretary of State Dean Acheson had publicly identified the United States' security commitments in Asia; defending South Korea was not among them. The United States had also signaled its lack of interest in protecting the South Koreans by declining to arm them with enough weapons to repel a Soviet-backed invasion by the North. The Soviet Union therefore had good reason to assume that the United States would not respond if the North Koreans attacked. In light of these facts, it is difficult to see Stalin's encouragement of the invasion as an example of bold, revisionist behavior. Contrary to Kahl's claims, the beginning of the Korean War hardly supplies evidence of Soviet nuclear adventurism, and therefore it should not be understood as a cautionary tale when considering the potential impact that possessing a nuclear arsenal would have on Iranian behavior.

Kahl seems to accept that nuclear weapons create stability—or a form of stability, at least. But he notes—as do most scholars of nuclear matters, myself included—that nuclear stability permits lower-level violence. Taking advantage of the protection that their atomic arsenals provide, nuclear-armed states can feel freer to make minor incursions, deploy terrorism, and engage in generally annoying behavior. But the question is how significant these disruptive behaviors are compared with the peace and stability that nuclear weapons produce.

Kahl points to the example of Pakistan, whose nuclear weapons have probably increased its willingness to wage a low-intensity fight against India, which makes the subcontinent more prone to crises. As Kahl correctly argues, Pakistan's increased appetite for risk probably played a role in precipitating the so-called Kargil War between India and Pakistan in 1999. But the Kargil War was the fourth war fought by the two countries, and it paled in comparison to the three wars they fought before they both developed nuclear weapons. In fact, the Kargil conflict was a war only according to social scientists, who oddly define "war" as any conflict that results in 1,000 or more battlefield deaths. By historical standards, that casualty rate constitutes little more than a skirmish. Far from proving that new nuclear states are not swayed by the logic of deterrence, the Kargil War supports the proposition that nuclear weapons prevent minor conflicts from becoming major wars. Indeed, nuclear weapons are the only peace-promoting weapons that the world has ever known, and there is no reason to believe that things would be different if Iran acquired such arms.

Kahl also frets that a nuclear-armed Iran would step up its support for terrorist groups. Terrorism is tragic for those whose lives it destroys and unnerving for countries that suffer from it. But the number of annual fatalities from international terrorism is vanishingly small compared with the casualties wrought by major wars. Of course, like Kahl, I would not welcome increased Iranian support for Hezbollah or an increased supply of more potent Iranian arms to Palestinian militants. And I, too, hope for a peaceful resolution of the Israeli-Palestinian conflict and the disputes between Israel and its neighbors. But the last several decades have not offered much reason to believe those goals can be easily attained, and I would rather see the possibility of major war reduced through nuclear stability, even if the price is an increase in disruptive activities and low-level conflict.

Just a few months ago in these pages, Kahl eloquently expressed his opposition to a proposed preventive strike on suspected Iranian nuclear facilities, warning that it could spark a regional war ("Not Time to Attack Iran," March/April 2012). I agree. But Kahl and I differ on what the United States can achieve in its showdown with the Islamic Republic. Kahl appears to believe that it is possible for the United States to forgo risky military action and still prevent Iran from obtaining nuclear weapons through a combination of sanctions and diplomacy. I strongly doubt that. Short of using military force, it is difficult to imagine how Iran could be prevented from acquiring nuclear weapons if it is determined to do so. That outcome would produce a lamentable possible increase in terrorism and lower-level conflict. But the many benefits of regional stability would far outweigh the costs.

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Responses

Is Growth Good?

Resources, Development, and the Future of the Planet

Environmentalists Do Not Oppose Growth

FRANCES BEINECKE

In 1970, U.S. President Richard Nixon signed the Clean Air Act into law, launching one of the most successful public health and environmental programs in history. In the first decade that followed, in Los Angeles, the amount of pollution from ozone—the main component of smog—exceeded government health standards on 200 days each year. By 2004, that number had dropped to 28 days. In the 1970s, also as a result of polluted air, nearly 90 percent of American children had lead in their blood at levels higher than what the Centers for Disease Control and Prevention deemed safe, and parents were alarmed by studies showing that lead interfered with cognitive development. Today, only two percent of children have such high levels of lead in their bodies.

By controlling hazardous emissions, the Clean Air Act delivered these and many other health benefits. And it did so without curbing economic growth. The United States' GDP has risen by 207 percent since the law was passed over four decades ago. And because the law sparked innovation—from catalytic converters, which convert toxic exhaust fumes from automobiles into less dangerous substances, to smokestack scrubbers—pollution reductions have proved relatively inexpensive. According to the U.S. Environmental Protection Agency, for every dollar the United States has spent on cutting pollution through the Clean Air Act, it has gained more than $40 in benefits.

Yet in his recent article ("Environmental Alarmism, Then and Now," July/August 2012), Bjørn Lomborg argues that the modern environmental movement has been distracted by unproductive goals and a desire to thwart economic growth. As evidence, he cites *The Limits to Growth*, a book published in 1972 by a group of scientists associated with the Club of Rome. The book cautioned that exponential increases in population, consumption, and pollution would exhaust the earth's finite natural resources and trigger the collapse of the world system. Lomborg rightly points out that the Club of Rome's worst forecasts never materialized, but he believes the book had a perverse effect on the way people think. "By recommending that the world limit development in order to head off a supposed future collapse," he writes, "*The Limits to Growth* led people to question the value of pursuing economic growth."

Lomborg assumes that those who acknowledge that the planet has finite resources must necessarily oppose economic progress. This framing reveals the limitations of Lomborg's argument. The question the environmental movement asks is not, "How can we arrest growth?" The question is, "What kind of growth do we want?" For decades, heads of state, economists, captains of industry, and environmental leaders have opted for the type of growth that allows economic output to rise, makes the air cleaner, and preserves the planet's resources at the same time.

The public call for environmental protection did not begin with the publication of a slender volume from the Club of Rome. It emerged from what people saw with their own eyes: raw sewage in the Great Lakes, smog so thick that it obscured the George Washington Bridge, oil despoiling Santa Barbara's pristine beaches, old-growth forests stripped bare in Oregon. It was Americans' desire to protect their families and their resources that ignited the modern environmental movement and inspired the passage of the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, and other landmark legislation.

Lomborg, however, claims that the Club of Rome's dire warnings distracted people from making real progress. "Spurred by analyses such as that presented in *The Limits to Growth*, much time and effort over the years has been diverted from useful activities to dubious or even pernicious ones." As an example, he says that instead of banning DDT, a known carcinogen, the United States should have focused on air pollution. He claims that because air pollution does not enjoy "celebrity backers," it has been "ignored." The lives saved by the Clean Air Act prove him wrong. For 40 years, the environmental movement has sought to make the air safer to breathe, the water cleaner to drink, and the wilderness better protected. Only those who forget the sight of yellow-brown haze or burning rivers would call this a distraction.

GETTING IT RIGHT

Today, a new set of images reveals the hazards not of economic growth per se but of the unsustainable exploitation of natural resources. These are not predictions from a 40-year-old report but measurements of real developments. Right now, 90 percent of the world's large fish, such as tuna, swordfish, and marlin, have disappeared thanks to overfishing. This is alarming not just for the sake of the species themselves but also for industry and food supplies: the National Ocean Economics Program reports that between 1997 and 2007, California's commercial fishing revenues dropped by 43 percent because fish stocks were plummeting. Meanwhile, 90 percent of West Africa's rain forests have been destroyed, and between 2000 and 2005 alone, the world lost rain-forest acreage equal to the size of Germany. The amount of carbon dioxide in the air has increased by 23 percent over the last 50 years, driving climate change and intensifying such extreme weather events as the 2010 floods in Pakistan, which affected 20 million people, and the 2011 floods in Thailand, which caused more than $45 billion in damage.

Accounting for the world's natural capital is not alarmist; it is wise. Clean air, a stable climate, plentiful fish, lush forests, fresh water, and energy resources are the building blocks of prosperity. Identifying how to tap them without exhausting them will open the door to economic growth.

Consider, for instance, the automobile industry. The United States can continue to waste oil, a limited and expensive resource, by burning it in inefficient engines that use outdated technologies. Or it can build cars that travel farther on less gasoline. The Obama administration has opted to encourage the latter by raising the fuel-efficiency standard to 54.6 miles per gallon by 2025. Within 20 years, better-performing cars will reduce U.S. oil use by more than the amount that the country imported from Iraq and Saudi Arabia in 2010. They will also save drivers more than $80 billion a year at the pump and, by 2025, halve the amount of carbon pollution emitted by vehicles in the United States.

Even if the United States finally starts to clean up its automobile fleet, demand for cars is rising around the globe. Right now, there are about 800 million vehicles in use; by 2050, that number will rise to 2.5 billion. If the world is to meet this demand without sending oil prices through the roof, endangering public health with dirty tailpipes, and intensifying climate change, then it must start finding ways to make this growth greener.

The same holds for rising energy needs. Two-thirds of the buildings that are projected to exist in India in 2030, for instance, have not yet been built. David Goldstein, a scientist at the Natural Resources Defense Council, has argued that if India incorporates energy-saving features from the beginning of construction, it can reduce energy use by 50 percent at no additional cost. In other words, it makes more economic sense to start with efficient buildings than to retrofit them later. The production of efficient buildings and cleaner cars will generate billions of dollars for manufacturers and employ millions of people. That constitutes growth, but because it will use less energy and generate less pollution, it will be more sustainable growth.

Lomborg fails to account for these gains because he persists in thinking that environmental leaders oppose economic growth. He is mistaken. At the recent Earth Summit in Rio de Janeiro, nobody called for an end to growth. Instead, the 50,000 heads of state, mayors, business executives, and citizens who gathered there affirmed that, despite Lomborg's claims to the contrary, infinite growth in the consumption of finite resources is simply not possible. Those of us who are concerned for the environment want economic growth. After all, prosperity often leads to greater environmental protection. We just want to do it right.

FRANCES BEINECKE *is President of the Natural Resources Defense Council.*

Patterns, Not Predictions

DENNIS MEADOWS

According to Bjørn Lomborg, *The Limits to Growth*, a short book written 40 years ago (and of which I am a co-author), is "mostly forgotten." Nevertheless, he believes that the book "helped set the terms of debate on crucial issues . . . with malign effects that remain embedded in public consciousness four decades later."

Among those "malign effects" is the growing recognition that current economic policies can produce problems greater than their benefits. Lomborg rejects that perception, concluding, "It is past time to acknowledge that economic growth, for lack of a better word, is good, and that what the world needs is more of it, not less."

The expansion of economic output over the past 250 years has produced enormous gains in human welfare. But conditions have changed. Humanity must now become more nuanced in its policies. We noted this in *The Limits to Growth*, writing, "Any human activity that does not require a large flow of irreplaceable resources or produce severe environmental degradation might continue to grow indefinitely."

Lomborg quotes only the first edition of our book, long out of print. Thus, readers cannot easily form their own conclusions. In *Limits to Growth: The 30-Year Update*, we used more recent data but still reached the original conclusions.

Lomborg's critique of our report boils down to the assertion that we predicted the exhaustion of resources before the year 2000. But we said repeatedly in *The Limits to Growth* that it is impossible to predict the future of social systems precisely. Instead, our goal was to understand long-term patterns of development for world population, capital, and other physical variables. We showed 12 different scenarios of the future, seven portraying collapse and five showing possibilities for a sustainable future. We declared unambiguously that the scenarios were "not exact predictions of the values of the variables at any particular year in the future. They are indications of the system's behavioral tendencies only." We were interested in patterns, not predictions.

Unlike Lomborg, most readers noted this point. As the physicist Graham Turner wrote in a 2008 paper for Australia's Commonwealth Scientific and Industrial Research Organization (CSIRO) comparing *The Limits to Growth*'s predictions with "thirty years of reality," the book "was not intended to be predictive or for making detailed forecasts, but to provide a means for better understanding the behaviour of the world economic system."

Lomborg claims that *The Limits to Growth* "worried about running out of oil (in 1990) and natural gas (in 1992)." But as Matthew Simmons, who was an energy adviser to U.S. President George W. Bush and a member of the National Petroleum Council, wrote in a 2000 white paper on energy, "Nowhere in the book was there any mention about running out of anything by 2000. Instead, the book's concern was entirely focused on what the world might look like 100 years later. There was not one sentence or even a single word written about an oil shortage, or limit to any specific resource, by the year 2000."

Lomborg errs because his critique overwhelmingly draws on numbers he took from one data table in the first edition of *The Limits to Growth*. He presents those numbers as predictions generated by our computer model, even though our citations indicated that this table presented 1970 data compiled by the U.S. Bureau of Mines and other sources. We used the numbers solely to illustrate important differences between linear and exponential growth; they had no connection to our scenarios. What is more, Lomborg ignores the fact that we eliminated this table completely from the second and third editions of our book with no effect whatsoever on our results.

Lomborg makes many other important mistakes. His discussion of his Figure 2, on commodity prices, ignores the rise in the commodity price index since the year 2000, which may herald a permanent shift in the trend. His Figure 3, on natural resource levels, confuses resource reserves with their crustal abundance. The first can be increased by raising prices; the second cannot. His Figure 4 compares the effects of short-lived air pollution with our scenario values for long-lived toxics, a category from which we explicitly excluded air pollution.

Ignoring climate change, Lomborg suggests that conventional policies can solve society's problems. Many scientific studies contradict that view, most recently a report from IAP, a global network of 105 scientific academies. In June, IAP published a joint statement acknowledging that the global system is "on track to alternative futures with severe and potentially catastrophic implications for human well-being."

The Limits to Growth said this in 1972, and Turner's CSIRO report has reconfirmed our concern. After analyzing empirical information on the development of global society, Turner concluded, "The analysis shows that 30 years of historical data compares favorably with key features of [*The Limits to Growth*'s] business-as-usual scenario called the 'standard run' scenario, which results in collapse of the global system midway through the 21st Century."

To avert that result, we proposed deliberate measures for slowing physical expansion. Lomborg, by contrast, argues that human ingenuity alone will allow the world to overcome its environmental challenges. The problem is that he ignores the role ingenuity often plays in blocking constructive change. Irrespective of the problems it may cause humanity, every policy brings wealth, influence, and satisfaction to some. When that policy is challenged, its beneficiaries typically use their ingenuity to stymie useful alternatives. One may hope they will fail. But boosterism on the part of conventional economists only makes their task easier.

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It's a Small World

JØRGEN RANDERS

The Limits to Growth has been aggressively criticized since it first appeared in 1972 (I am one of its co-authors). But much of the criticism has been directed at straw men, so much so that during the 1970s and 1980s, a number of people who had never read the book gradually came to believe that it contained a number of statements that its authors had never actually made. One of them is the widely repeated allegation that the book predicted the end of oil before 1990, which it did not. Bjørn Lomborg's essay, which reproduces many of the arguments long used against those statements, is a classic example of the faulty criticism of the book.

The reason *The Limits to Growth* was attacked so fiercely on imaginary grounds is simple: as the chemist Ugo Bardi noted in his book *The Limits to Growth Revisited*, the study challenged central tenets of the worldview held and cherished by many Westerners. But despite Lomborg's claims, some of the major trends discussed in *The Limits to Growth* have in fact matched real developments since 1972. For example, the global population reached only six billion in 2000, as forecast in the "business-as-usual" scenario in *The Limits to Growth*, not seven billion, as most demographers had predicted in 1972.

The fundamental message of *The Limits to Growth* was that the world is small, and that if we want to live well and long on a small planet, we need to limit our ecological footprint. The sad fact is that despite the study's warnings, humans are already overwhelming the earth's carrying capacity. Today, humans emit twice as much greenhouse gases per year as the world's oceans and forests can absorb. This so-called overshoot cannot last. If human society does not reduce the size of its footprint, the ecological systems that underpin its well-being will collapse. The world must now either accept long-term chaos for the sake of short-term comforts or make short-term sacrifices for the sake of long-term comforts. Unfortunately, around the world and particularly in market democracies, decision-makers too often disregard long-term consequences.

The Limits to Growth was supposed to help humanity make wiser policy choices. It warned that it was necessary to take action before distant problems became immediate crises and to spend on solutions while the sailing was still smooth. But the world's elites feared that such a change in the status quo would end both economic growth and their own privileged positions. And so the critics of *The Limits to Growth* instead tried to deny the problems it addressed and attacked the messenger.

Rather than joining in the critical effort to reduce man-made greenhouse gas emissions, Lomborg revives a number of straw men and inaccurate claims about what *The Limits to Growth* said. The study did not predict that oil and other resources would run out before 2000. It did not assume that population and GDP would grow exponentially; their growth rates vary and were computed as an outcome of other drivers in the model. Nor did *The Limits to Growth* state that air pollution could or would kill humanity. Rather, it tried to estimate how strong the effect of persistent long-term pollutants would be on human health and food production. In other words, the study did not simply forecast the end of the world as we know it; it encouraged a wise human response to create a sustainable world.

Lomborg's assessment of the present state of affairs is even more troubling. He sees a world that is well on its way toward solving its environmental crisis and cites the progress that it has made in curbing air pollution. But by ignoring emissions of carbon dioxide, Lomborg overlooks the single greatest long-term threat to the environment. Emissions of carbon dioxide matter much more than those of shorter-lived pollutants, such as sulphur dioxide, since those are washed out of the atmosphere in weeks. Carbon dioxide has a half-life of 100 years, and emitting it causes lasting damage to the planet's climate.

In my recent book and Club of Rome report, *2052: A Global Forecast for the Next Forty Years*, I argue that emissions of greenhouse gases will cause the world's temperature to rise to two degrees Celsius higher than in preindustrial times by 2052. In the following decades, the world will be three degrees Celsius warmer and probably warm enough to trigger a further and uncontrollable increase in the global average temperature caused by the gradual melting of the tundra. In short, this future is unpleasantly similar to the "persistent pollution scenario" from *The Limits to Growth*, with carbon dioxide as the persistent pollutant.

The rise in greenhouse gas emissions will be the critical factor that shapes the future of life on earth. These emissions could easily be reduced if humanity decided to take action. But held back by myopic decision-making, humanity will not likely change its behavior. In modern, democratic market economies, investments mainly flow to what is profitable, not to what is needed. And regulators, who could in principle consider both economic growth and larger social needs, do not receive the necessary political mandates from shortsighted voters who want low taxes and cheap prices. Society can address the environment's problems only if it regains some control over the flow of investments.

JØRGEN RANDERS *is a Professor at BI Norwegian Business School. He is a co-author of* The Limits to Growth *and its two sequels.*

Alarmism Is Justified

JOHN HARTE AND
MARY ELLEN HARTE

In his essay, Bjørn Lomborg begins by criticizing the notion that the primary constraint on economic growth is the finiteness of resources, as if that remains the belief of the scientific community. Environmental scientists have long recognized, however, that the main limit to growth is not running out of resources but rather running out of space for the byproducts of that growth. Humans are filling the world's atmosphere with greenhouse gases, tainting its aquifer and surface water with deadly pollutants, eroding its soils, and allowing damaging toxics to build up in human bodies.

Obsessed with the numerical accuracy of projections made decades ago in *The Limits to Growth*, Lomborg ignores the importance of that study's qualitative insights, still valid today, concerning the interconnections between humanity and the natural world. The book illustrated the many ways in which increases in the human population and consumption levels undermine the sustainability of human society, including through pollution, the depletion of both renewable and nonrenewable resources, and industrial production. Lomborg also ignores some of the study's accurate quantitative insights: recent analyses by scientists show that *The Limits to Growth* was eerily correct in at least some of its most important projections. In a reexamination of the study, the ecologists Charles Hall and John Day showed that if a timeline were added to the book's predictions with 2000 at the halfway point, "then the model results are almost exactly on course some 35 years later in 2008."

The Limits to Growth countered the blissful ignorance of many economists and business magnates who wanted to believe in the convenient pipe dream of unlimited growth, denying the finiteness of the natural environment. Many policymakers did understand the value of the study, however, and tried to inculcate its basic concepts into our civilization, but without success. The scientific community thus still has educational work to do, and finishing it is essential to securing a future for our civilization.

WHAT THE SCIENCE SAYS

Lomberg promotes numerous misconceptions in his essay. Bemoaning *The Limits to Growth*'s results as neither "simple nor easy to understand," Lomborg fails to grasp what many reputable scientists and policymakers have long known: that predicting the details of complex phenomena is difficult. In that light, *The Limits to Growth* was just a first stab at analyzing the elaborate dynamics that cause continued economic growth to threaten the sustainability of human society.

Lomborg further displays scientific ignorance when he talks about pesticides. His estimate of 20 U.S. deaths annually from pesticides ignores both the ecological harm they cause and the human health problems, including cancer, hormone disruption, and neurological effects, associated with pesticide exposure. His argument that DDT is a cheap, effective solution to malaria overlooks the ability of mosquitoes, like other pests, to evolve resistance. Pesticides can be valuable tools when used as scalpels, but when they are used as bludgeons, the evolution of resistance often undoes their efficacy. This is why many epidemiologists fear that society is regressing from the happy era of working antibiotics.

Lomborg also perpetuates the denial of the multiple ways in which civilization is underpinned by a healthy environment. Yes, we can continue to expand into previously untapped arable land, but only at the cost of undermining the giant planetary ecosystems that assure humanity will have clean air, clean water, and a sustainable and benign climate. Yes, we can forgo recycling and grow plantations for paper, but only at the expense of biodiversity. Indeed, as increasing population growth and overconsumption degrade the environment, none of the economic growth that Lomborg hopes for will be possible. Moreover, the capacity of society and its institutions to maintain, let alone improve, the quality of life—a capacity that Lomborg takes for granted—will be at risk.

Lomborg retells the story of how the biologist Paul Ehrlich, the physicist John Holdren, and one of us lost a bet in 1990 after the economist Julian Simon wagered that the prices of a number of commodities would drop over a ten-year period. But had the bet been extended a few more years, the scientists would have won, because the prices of those commodities had, on average, risen. Simon later challenged ecologists to a new set of bets on the future; Ehrlich and the climatologist Stephen Schneider accepted the challenge and picked 15 environmentally significant trends, such as the concentration of greenhouse gases in the atmosphere and the amount of biodiversity on the planet. To our surprise, once he recognized the trends, Simon saw the writing on the wall and promptly backed out of the bet; he would have lost more than $10,000. Indeed, the limitations on the human enterprise extend beyond minerals. World hunger is increasing, as is the cost of basic food staples. The temporary advances of the environmental movement, such as the creation of more ecological reserves to protect biodiversity, are proving less and less effective faced with the sheer weight of further population growth and increasing consumption.

THE RIGHT KIND OF INNOVATION

Lomborg is correct that innovation is an important tool. Yet he seems to display a curious lack of confidence in human ingenuity when it comes to solving the environmental problems that science has identified to be of most concern to the future of humanity. He praises the very actions that cause climate disruption and pollution, such as offshore oil drilling, but has no such confidence that technological achievements can sharply reduce the world's dependence on fossil fuels. He revels in a food-production system that is awash in overused fertilizers, harmful pesticides, herbicides, and antibiotics, and is a major destroyer of the biodiversity on which it depends, but sees no hope for new inventions that could bring down the cost of organically produced food. Unfortunately, Lomborg seems to support ingenuity only in the cause of the trends he likes, rather than in the cause of technologies that could create a more sustainable future.

In fact, the scientific community knows how to transition to renewable clean energy to create a safer, more politically stable world and prevent destructive climate change without decreasing the quality of life. We know how to stem the problem of overpopulation by supplying family-planning knowledge and contraceptives to the more than 100 million women who lack them in developing countries. Where the world most needs the ingenuity that Lomborg assures us exists is in replacing an economic system hooked on perpetual growth and overconsumption by the rich with one that is much more equitable and sustainable.

Unlike Lomborg, most scientists understand the pernicious exponential effects of overpopulation on the environment. In 1993, 58 academies of science stated that "continuing population growth poses a great risk to humanity," and it now looks like the population could roughly double from its 1993 size by the end of this century. Other recent scientific statements have sounded an equally "alarmist" note, and with good reason. In March, for example, the participants at the "Planet Under Pressure" meeting, a gathering of climate-change scientists, declared that "the continued functioning of the Earth system as it has supported the well-being of human civilization in recent centuries is at risk. Without urgent action, we face threats to water, food, biodiversity and other critical resources: these threats risk intensifying economic, ecological and social crises, creating the potential for a humanitarian emergency on a global scale." To translate the warnings of the scientific community into action, the world desperately needs courageous political leadership to counter the powerful interest groups that continue to deny the unsustainability of humanity's current existence.

The Limits to Growth helped educate a generation, and now more than ever, those concerned for humanity need to promote the solutions that can make society more sustainable. The denial of science is a perfectly harmless activity done in the privacy of one's own home, but when scientific misconceptions are laid out in the pages of the public media, as in Lomborg's essay, it is a threat to the world's well-being.

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Lomborg Replies

The Limits to Growth predicted catastrophe: humanity would deplete natural resources and pollute itself to death. Its solution was less economic growth, more recycling, and organic farming. My essay documented how the book's predictions were wildly off, mainly because its authors ignored how innovation would help people overcome environmental challenges.

Because the book's goal was so dramatic—averting the end of the world—its recommendation was for society to simultaneously do everything in its power to forestall that outcome. Today, much of the environmental movement continues to evince such alarmism and, consequently, is unable to prioritize. Developed countries focus as much on recycling, which achieves precious little at a high cost, as they do on attaining the much larger benefits from tackling air pollution, a massive, if declining, threat. Meanwhile, some environmentalists' demands are simply counterproductive. Avoiding pesticides, for example, means farming more land less efficiently, which leads to higher prices, more hunger, more disease (because of a lower intake of fruits and vegetables), and less biodiversity.

My essay argued that although the *The Limits to Growth*'s analysis has been proved wrong, much of its doomsaying and policy advice still pervades the environmental debate 40 years later. These four critiques, instead of refuting my argument, in fact vindicate it.

First, only Dennis Meadows really tries to defend *The Limits to Growth*'s predictions of collapse, and he does so with little conviction. Second, at least some of the responses accept in principle that society needs to prioritize among its different environmental goals and that economic growth will make achieving them easier—in Frances Beinecke's words, "prosperity often leads to greater environmental protection." Third, all four of the critiques of my essay rely on the language of doom to motivate action, which, to the detriment of the environment, convinces society that it must pursue all its environmental goals at once, regardless of the costs and benefits. Finally, by focusing on the threats of economic growth to the environment, the authors generally neglect that growth has lifted billions of people out of grinding poverty and that others may remain poor because of the developed world's environmental concerns, real or imagined.

WRONG AGAIN

Defending *The Limits to Growth*, Meadows curiously complains that I address only the original book, which is "long out of print." He then posits that my case rests on one table from that book, on resource depletion, which he says I misrepresent. That is incorrect on several counts.

First, it is patently false to claim, as Meadows does by way of a quotation from Matthew Simmons, that "nowhere in the book was there any mention about running out of anything by 2000." (Jørgen Randers makes a similar point.) *The Limits to Growth* quoted approvingly the first annual report by the U.S. government's Council on Environmental Quality, in 1970: "It would appear at present that the quantities of platinum, gold, zinc and lead are not sufficient to meet demands. At the present rate of expansion . . . silver, tin and uranium may be in short supply even at higher prices by the turn of the century." Meadows' own table publicized "the number of years known global reserves will last at current global consumption," showing that gold, lead, mercury, silver, tin, and zinc would not last to the year 2000. The instances go on.

According to the book's model, the main driver of the global system's so-called collapse would be the depletion of resources, and averting that outcome was the book's widely publicized rallying cry. So focusing on that aspect of the book can hardly be called a misrepresentation. What is more, claiming that this is my only critique ignores that I also showed how the book got pollution wrong and how its analysis of collapse simply did not follow.

Meadows and Randers both claim that in their model, pollution consisted of long-lived toxics, not air pollution. In fact, they were much more vague on this question in 1972. In the best case for their predictions of deadly pollution, they meant air pollution, which today accounts for about 62 percent of all environmental deaths, according to the World Bank and the World Health Organization. But if they indeed meant long-lived toxics, their prediction that "pollution rises very rapidly, causing an immediate increase in the death rate" has been clearly disproven by the declining global death rate and the massive reductions in persistent pollutants.

John Harte and Mary Ellen Harte put forth a similarly weak defense of *The Limits to Growth*, as they do not challenge my data. They quote an article by the ecologists Charles Hall and John Day to say that *The Limits to Growth*'s results were "almost exactly on course some 35 years later in 2008." This is simply wrong when it comes to resource levels, as the data in my original article shows, and indeed the cited article contains not a single reference for its claims about oil and copper resource reductions.

Harte and Harte further argue that the increase in the cost of resources during the last ten years is evidence of "the limitations on the human enterprise." Meadows claims that this uptick may "herald a permanent shift in the trend." Yet neither carries through the argument, because the empirical data from the past 150 years overwhelmingly undermine it. The reason is that a temporary increase in the scarcity of a resource causes its price to rise, which in turn encourages more exploration, substitution, and innovation across the entire chain of production, thereby negating any increase in scarcity.

Harte and Harte demonstrate the unpleasant arrogance that accompanies the true faith, claiming that I "deny" knowledge, promote "scientific misconceptions," and display "scientific ignorance." They take particular issue with my assertion that DDT is a cheap solution to malaria, stating that I overlooked the issue of biological resistance. In fact, all malarial treatments face this problem, but DDT less so than the others. Whereas many malarial treatments, such as dieldrin, work only by killing insects, DDT also repels and irritates them. Dieldrin strongly selects for resistance, whereas DDT works in three ways and even repels 60 percent of DDT-resistant mosquitoes.

FALSE ALARM

All four critiques contain grand dollops of doom. Beinecke invokes "alarming" environmental problems from overfishing to the destruction of the rain forests and global warming. These are real issues, but they, too, deserve practical thinking and careful prioritization. Fish and rain forests, like other resources subject to political control, tend to be overused. By contrast, when resources are controlled by individuals and private groups, their owners are forced to weigh long-term sustainability.

Indeed, Beinecke's response reflects the most unfortunate legacy of *The Limits to Growth*: because of its persistent belief that the planet is in crisis, the environmental movement suggests tackling all environmental problems at once. This is impossible, of course, so society ends up focusing mainly on what catches the public's attention. Beinecke acknowledges that campaigns to enact environmental policy "emerged from what people saw with their own eyes: raw sewage in the Great Lakes, smog so thick that it obscured the George Washington Bridge, oil despoiling Santa Barbara's pristine beaches." Yet the smog killed more than 300,000 Americans annually, whereas the effects of the oil spills, although serious, were of a much lower order of magnitude.

She claims that the U.S. Clean Air Act somehow contradicts my argument, when I in fact emphasized that society should have focused much more on cleaner air. Today, roughly 135,000 Americans still die from outdoor air pollution each year, and two million people, mostly in the developing world, die from indoor air pollution. Instead of focusing on the many negligible environmental problems that catch the public's attention, as the U.S. Environmental Protection Agency did when it focused so heavily on pesticides in the 1970s and 1980s, government should tackle the most important environmental problems, air quality chief among them. Beinecke misses this tradeoff entirely.

Harte and Harte demonstrate a similar lack of proportion and priority. In response to my claim that a slightly larger portion of the world's arable land—roughly five percent—will need to be tapped in order to feed humanity, they offer an unsubstantiated fear that such an expansion would undermine "giant planetary ecosystems." Yet when they fret about pesticides, they seem impervious to the fact that eschewing them would require society to increase the acreage of land it farms by more than ten times that amount.

COOL DOWN

If *The Limits to Growth* erred in some of its quantitative projections, then perhaps, as Harte and Harte put it, its "qualitative insights [are] still valid today." Randers cites global warming as the new reason the book was right. Discussing his predictions for high carbon dioxide emissions, Randers writes, "This future is unpleasantly similar to the 'persistent pollution scenario' from *The Limits to Growth*."

But the comparison is unfounded and leads to poor judgment. In *The Limits to Growth*'s original formulation, pollution led to civilizational decline and death. Although many environmentalists discuss global warming in similarly cataclysmic terms, the scenarios from the Intergovernmental Panel on Climate Change project instead a gradually worsening drag on development. Standard analyses show a reduction of zero to five percent of global GDP by 2100, in a world where the average person in the developing world will be 23 times as rich as he or she is today.

Moreover, although the responses to my essay invoke global warming as a new rallying cry for environmental activism, they fail to suggest specific actions to avert it. Harte and Harte claim that "the scientific community knows how to transition to renewable clean energy." Sure, developed countries have the technical know-how to adopt clean energy, but they have not done so because it would still be phenomenally expensive. Policies aimed at stopping climate change have failed for the last two decades because much of the environmental movement, clutching dearly to *The Limits to Growth*'s alarmism and confident sense of purpose, has refused to weigh the costs and benefits and has demanded that countries immediately abandon all polluting sources of energy.

Many economists, including the 27 climate economists involved in the 2009 Copenhagen Consensus on Climate conference, have pointed out smarter ways forward. The best means of tackling global warming would be to make substantial investments in green energy research and development, in order to find a way to produce clean energy at a lower cost than fossil fuels. As one of the leading advocates of this approach, I cannot comprehend how Harte and Harte could claim that I do not support clean-energy innovation.

Unfortunately, the world will be hard-pressed to focus on smarter environmental policies until it has expunged the dreadful doom of *The Limits to Growth*. And unless the environmental movement can overcome its fear of economic growth, it will also too easily forget the plight of the billions of poor people who require, above all, more and faster growth.

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Responses

Stimulus or Reform?

Charting a Path Out of the Recession

No Time for Austerity

MENZIE D. CHINN

In "The True Lessons of the Recession" (May/June 2012), Raghuram Rajan sketches a structuralist interpretation of the Great Recession's causes and aftermath and draws out the resulting policy implications. Although he gets much right about the causes of the crisis, the reforms he recommends for ending it are misguided. In an environment of insufficient demand, a strategy that relies solely on getting rid of regulations, investing in human capital, and spurring entrepreneurship is doomed to end in sorrow. These types of policies are better thought of as complements to, rather than substitutes for, aggressive tactics aimed at boosting demand.

As Rajan admits, the crisis was caused by a confluence of forces, most important among them an ill-conceived frenzy of financial deregulation. This deregulation swept away existing checks on banks and gave rise to the weapons of mass financial destruction that proliferated in the early years of this century, such as credit default swaps and collateralized debt obligations. Rajan holds politicians primarily responsible for these problems, since they promoted a culture of homeownership, backed Fannie Mae and Freddie Mac, the government-sponsored mortgage agencies, and defended the interests of Wall Street.

Yet more blame should go to the financial sector, which deployed lobbyists to plead the case for deregulation. Had the George W. Bush administration pursued an aggressive regulatory stance, it could have avoided—or at least reduced—the devastating bubbles in the housing sector and in asset-backed financial products. In fact, even minimal regulation would have been helpful. Instead, just as the challenges of bank lending were rising, James Gilleran, the administration's first head of the Office of Thrift Supervision, which was supposed to watch over savings banks, proudly cut 20 percent of his agency's work force. Likewise, the Federal Reserve under Alan Greenspan failed to crack down on predatory lending practices through its authority over bank holding companies.

Rajan asserts that because resources were misallocated before the bubble burst—in residential construction, finance, and elsewhere—the cure must involve a drastic reallocation of resources to the right places. Although some sort of reallocation of labor to manufacturing and the production of other exportable goods and services is necessary, the current malaise is not due to a mismatch between workers' skills and employers' needs. If it were, then unemployment would not be distributed over many sectors, as is the case in the United States today. Moreover, formal statistical analyses have failed to find a substantial increase in the mismatch between workers' skills and jobs after the financial crisis. What the evidence does suggest is that low-skilled workers have had trouble integrating into the labor force over the past 30 years.

Rajan also points out that inequality has increased as a result of global competition and technological innovation. But although those factors have changed the income distribution, they have not, as he suggests, resulted in involuntary unemployment. Pressure from competition and technology does gradually depress wages over time, but it would certainly not lead to sudden jumps in unemployment, as have occurred since 2008. One could suggest, as Rajan does, that the housing boom temporarily masked workers' lagging incomes, until the bursting of the bubble revealed the truth. But the more plausible story is that since structural unemployment has always existed, the bulk of the jobs shed during the recession were lost due to depressed demand in the private sector.

The diagnosis matters. If the problem is demand, then encouraging entrepreneurship, for instance, will not be particularly useful when there is little appetite for the products entrepreneurs develop. In fact, such structural adjustments might be counterproductive in the short run if they drive prices down as workers and firms become more efficient. If deflation occurs, already-indebted households in the United States will have a harder time getting back on their feet, since they will owe more in real terms.

Austerity, Rajan claims, will hurt in the short run but yield benefits in the long run. There is a real chance, however, that spending cuts could instead end up prolonging the downward spiral. In the crisis countries of Europe, for example, lower government expenditures and higher taxes are pushing the entire eurozone into recession, just as textbook macroeconomics would predict. What Europe needs is the opposite: stimulus by those countries that can afford it, additional transfers from the creditor countries to the debtor countries, and a looser monetary policy. Moreover, austerity policies can ironically end up entrenching the structural problems they are intended to address, as unemployed workers drop out of the work force altogether and their skills degrade.

In the past, technological innovation and rapid productivity growth have not been enough to rescue the U.S. economy from the combined effects of a credit bubble, a systemic financial crisis, and a deep recession, and there is no reason to believe that supply-side solutions such as Rajan's will work any better today. As the economic historian Alexander Field has documented, during the Great Depression, productivity grew rapidly while overall GDP growth remained lackluster. Moreover, the economy relapsed after fiscal and monetary policy was tightened in 1937. What pulled the United States out of the Depression was the more expansionary demand-side policies in the period leading up to World War II. That crucial part of the history is missing from Rajan's narrative.

None of these arguments for stimulus policies implies that countries can merely spend their way to prosperity. Budget constraints exist, and some governments will have to cut their budgets and raise taxes, particularly in the indebted eurozone countries (although they will have to do more than just that). But the United States should not embark on the path of unbridled austerity. The federal government enjoys rock-bottom borrowing costs, the U.S. dollar remains the world's reserve currency, and the Internal Revenue Service knows how to collect taxes. In short, the United States is no Greece. Washington has the room to stimulate the economy now while reducing its long-term debt and building much-needed infrastructure. Doing that would spare millions of workers the pain of additional years of unemployment and also invest in the country's future.

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The Limits of Structural Reform

KARL SMITH

Raghuram Rajan argues that rather than rely on fiscal and monetary stimulus to restore growth, Western governments should address the roots of the economic crisis they now face. But in implying that countries must choose between immediate efforts to reduce unemployment and lasting plans to improve productivity, Rajan presents a false dichotomy. In fact, governments do not face a tradeoff between short-term relief and long-term prosperity, since the goods and services that businesses buy as investments contribute just as much to aggregate demand as do the goods and services that households buy for consumption. Stimulus spending can reduce unemployment now while also promoting productivity in the long run.

Indeed, encouraging long-term investments is exactly the right response to the crisis, since consumption is already back on track. In the United States, expenditures for personal consumption had recovered from the downturn by the middle of 2010, and they are now hitting all-time highs with each new quarter. But expenditures for private investment, as of the first quarter of 2012, have gained back only half the ground lost during the Great Recession. Expenditures in the public sector are still falling, with local governments shedding thousands of workers each month, many of them teachers.

Housing is another area in which the government can both create jobs and make provisions for the future. According to Rajan, the residential construction sector is "bloated" and "need[s] to shrink" and the crisis was a painful but inevitable correction to the unsustainable housing boom. But the numbers tell a different story. Although the construction of single-family homes built for sale did increase during the boom, the construction of rentals units actually fell. The net result was that at the peak of the housing boom, fewer housing units were being completed each month than during the construction boom of the early 1970s. Moreover, in every single month since 2009, fewer housing units have been completed than in any month on record before the Great Recession.

As a result, the United States now faces a housing shortage, with more than two million fewer households than would be expected given the size of the population. The squeeze is largely a consequence of young adults, including married couples, moving back in with their parents because they cannot afford to live on their own. Nonetheless, landlords are reporting fewer apartment vacancies than they have had in decades, and rents are steadily rising.

And so at a time when construction workers remain unemployed and teachers are getting laid off in droves, the United States is refusing to invest in housing for its young families and in education for their children. Far from being a distraction from long-term investment, the U.S. unemployment crisis is itself the result of a failure to invest in future generations.

A deeper problem with Rajan's essay is that it presumes that governments and central banks can easily plan for future productivity. It is worth remembering that the crisis was caused in part by policies intended to ensure long-term growth: in particular, financial deregulation, the creation of the eurozone, and central banks' decisions to target low inflation. These policies created an environment in which a massive international financial sector could grow unchecked and in which governments possessed limited tools to manage its collapse.

Before the crisis, central banks committed themselves to keeping inflation low in an effort to promote growth. They succeeded in that goal, but in so doing, they rendered useless their most important tool: the power to set the rates at which banks loan money to one another. That is because once central banks had shoved inflation down as far as it could go, they ran out of room to lower the real interest rate—that is, the market interest rate minus inflation—and thus stimulate investment. In the United States, because the Federal Reserve has already lowered interest rates to near zero and inflation hovers around two percent, there is nothing central bankers can do to push real interest rates further down below negative two percent.

Things are even worse in Europe. Operating under a mandate to focus on inflation and ignore unemployment, the European Central Bank refuses to lower market interest rates. When inflation in Europe began to rise and provide the lower real interest rates that would stimulate investment, the European Central Bank upped rates and snuffed out any incipient recovery. The problem has been exacerbated by the euro, which prevents weaker countries from devaluing their currencies relative to stronger ones. That limitation, in turn, means that struggling states are not able to enjoy the boost in production, and the accompanying bump in employment, that occurs when a country's exports become relatively cheap on the international market.

Yet Rajan seems to have missed the chief lesson of these failures: that policies aimed at long-term growth can end up backfiring. Instead, he calls for more long-term reforms. Such efforts may already be doing more harm than good. Tighter financial regulation in the United States is constricting lending and may be exacerbating the housing shortage. Efforts to encourage education in the United States have led to a proliferation of diploma mills, which deliver second-rate schooling to increasingly desperate students.

More troubling is Rajan's recommendation that governments cut back on borrowing, a move that could end up creating dangerous investment bubbles. The process begins as governments trim their welfare states as a way to prevent aging populations from straining the public pension and health-care systems. Those cuts force the elderly to increase their savings as they lose government benefits. Someone has to borrow those savings, but since the government will not be doing so, younger people will have to.

They, in turn, will have to put that money somewhere, contributing to the very investment flows that have led to bubble after bubble. When the money was invested in emerging economies, it led to the Asian financial crisis of 1997–98. When it was invested in new technology, it led to the dot-com bubble, which burst in 2000. When it was invested in real estate, it led to the housing bubble. In each case, investors flooded a new asset class and then began to sour on it.

As these examples demonstrate, reforms rarely work out exactly as intended. No one can predict all the side effects of a new round of structural reforms, such as those Rajan proposes. So the best course for governments today would be to treat the victims of the last round and to think twice before embarking on any new attempts to remake the economic landscape.

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Rajan Replies

In criticizing work, it is often easier to caricature it, because caricatures are easier to attack. Both Menzie Chinn and Karl Smith have yielded somewhat to this temptation. The main point of my essay was that demand was bloated in the years before the Great Recession, thanks to unsustainable borrowing by governments, households, and the financial sector, with the importance of each varying by country. Bloated demand also distorted the supply side, which fed back into demand. In the United States, as more people bought houses financed with easy credit, home prices increased, and people borrowed against their homes to buy washing machines and cars.

After the collapse in housing construction and housing finance, not only did construction jobs evaporate, but demand for goods from now-overindebted households fell, too. This is why, in my essay, I called for making demand more sustainable, primarily by improving workers' incomes. This means creating better, more productive jobs in the industrial world and training workers to fill them: structural reforms. In short, industrial countries have to overcome weak growth and an unequal distribution of that growth, problems accentuated by aging populations and unsustainable entitlement spending. The standard remedies for business-cycle downturns that both Chinn and Smith propose simply will not be as effective.

My essay did not detail the process of adjustment industrial countries will have to undergo as they refocus on sustainable growth. But as I made clear, and contrary to what Chinn and Smith imply, I do not support cutting back sharply on government spending in all cases. It may make more sense, politically and economically, to reduce government spending, where excessive, at a measured pace.

That said, government spending is far from the cure-all its advocates describe. First, few governments like to cut spending, so promises to cut in the future are rarely credible. Governments that splurged in the past may not have the fiscal room to slow spending cuts, a constraint that may not be entirely bad if it refocuses them on doing what is essential. Second, although cutting government spending quickly does hurt short-term growth, increasing spending does not necessarily generate sustainable growth.

Governments that overspent before the crisis may face no choice other than to cut spending today. As Joseph of the Old Testament understood, countries should save up in the fat years to prepare for the inevitable lean years. Yet as studies that control for the business cycle show, eurozone countries, with a few exceptions, such as Germany, overspent in the years leading up to the crisis; it was not just Greece. More generally, government debt has steadily increased in industrial countries since the mid-1970s. The crisis was building for a long time.

In the European periphery, governments therefore cannot credibly promise to tighten their belts in the future in return for financing today. The German government, pointing to the last decade, says that it cannot trust countries to reform once they have access to money. With no sugar daddy willing to lend money to countries that have lost the market's faith, there may be no alternative to austerity. If confidence in Italy or Spain deteriorates again, the eurozone may have to resort to the traditional way of bridging the gap between credibility and financing: a temporary monitored reform program akin to those of the International Monetary Fund.

Some states in the United States have also been guilty of treating revenues in good times as permanent. Many of them made promises about pensions and health care to public-sector workers, politically easy guarantees that did not show up clearly on budgets or in current taxes. Only now are the magnitude and unsustainability of these agreements coming to light. Moreover, not all state spending is efficient. Although the United States clearly needs good, dedicated teachers, not all the administrators and support staffers added to education payrolls over the years are equally important. A crisis may impose useful discipline on government spending.

For those countries that do have the credibility and fiscal capacity to moderate the pace of adjustment, more untargeted spending will not necessarily create lasting jobs. A distant and general increase in spending would do little to help areas of the United States where a boom and bust in housing prices has left an overhang of household debt and depressed local demand. Greater demand in New York is not going to create restaurant jobs in

Las Vegas. Targeted household debt write-offs in Las Vegas could be a better use of stimulus dollars. However, the past buildup of debt in now-depressed areas suggests that demand was too high relative to incomes. If so, demand, without the dangerous stimulant of borrowing, will stay weak. Government policies should instead focus on helping workers move to where there are suitable jobs, for instance, by helping them offload their current homes and the associated debt without the stigma of default.

Unemployment is also higher in those U.S. states that experienced a house-building bust, and especially in the real estate and construction sectors. Chinn and Smith suggest that big infrastructure projects, modeled on those in the 1930s, could reemploy the laid-off workers. But those might not work, since the United States today has less need for infrastructure on that scale. Moreover, even if policymakers decided that the government should provide high-speed trains or high-speed Internet access in rural areas, workers used to installing dry wall might not easily switch to laying railroad tracks or fiber-optic cables.

In any debate about the effectiveness of stimulus in a deep crisis, Keynesians will sooner or later refer to the Great Depression. But that experience does not really prove that Keynesian policies work. Chinn overstates the evidence when he writes, "What pulled the United States out of the Depression was the more expansionary demand-side policies in the period leading up to World War II." Although government spending expanded substantially in the 1930s, the number of hours worked per adult was still 22 percent below its 1929 level when the war began, in 1939, and unemployment was still 17 percent. Only World War II pulled the United States out of the Depression, and the war changed so many things other than government spending.

Japan's massive real estate boom and bust in the 1980s is the more relevant example today, and the case serves as a warning of the difficulties of stimulating the economy through massive infrastructure spending. Even though Japan covered much of the country with concrete, it never really emerged from the crisis. Those making the case for immediate stimulus policies to revive demand often cite John Maynard Keynes' dictum, "In the long run we are all dead." For the Japanese, the long run has arrived, and they are older, their population is declining, and their government has the highest debt-to-GDP ratio among the G-7 countries.

What Japan did much too late was shut down failed firms, write down private debts, and recapitalize its banking system. And it still has not undertaken the structural reforms needed to bring competition and efficiency into many of its domestic markets. Keynesian stimulus may or may not have staved off worse outcomes in Japan, but it has saddled the country with enormous amounts of debt without kick-starting steady growth. And the government's constant focus on spending, which politicians loved, arguably deflected attention from the need for structural reforms.

In sum, additional government spending is particularly useful in a panic, when targeted, timely, and temporary aid can avert a downward spiral of expectations. It is less useful when the underlying problems are structural, when temporary public spending can do little to revive the private sector and create a bridge to sustainable growth.

I disagree with Chinn and Smith on several other issues. Chinn grossly misinterprets my argument when he writes that I claim that globalization and technological innovation "resulted in involuntary unemployment." In fact, my main point was that the lost middle-class jobs were replaced by low-end jobs, including in construction, before the crisis. Unemployment increased after the crisis, but disproportionately at the lower end. The scenario he sketches of advances in innovation and productivity being "counterproductive in the short run if they drive prices down" may be theoretically possible, but it is extremely unlikely. More innovation and productivity will raise workers wages in real terms and expand investment, contributing to sustainable growth in demand. To argue that these changes will lead to spiraling debt deflation in today's world strains credulity.

Smith may be right when he writes that a number of Americans still desire housing, but if those people do not have the ability to pay for it or finance it, most economists would not say that the United States now suffers from a "housing shortage"—at least not in the conventional use of the term. I agree, however, that construction has adjusted considerably since the crisis. Smith wants the government to do a lot more, including building infrastructure and expanding education. These are both laudable objectives if done well, but then he undercuts his argument by criticizing me for "presum[ing] that governments and central banks can easily plan for future productivity." I sympathize with his wariness about grand government plans, but he is in fact proposing a greater expansion of the state than I am.

Smith also presents a strained chain of logic in arguing that a cutback in government entitlement spending will lead to investment bubbles. If Western governments do not curtail the unaffordable promises they have made, they will surely have to default. Moreover, since today's middle-aged cohorts have little expectation that they will receive the benefits they have been promised, entitlement cuts (which typically do not affect today's elderly) will just bring promises in line with expectations—and have little effect on savings behavior. Even if older cohorts do increase their savings, that money need not end up with the young, as Smith suggests; instead, it would more likely go to young industries or emerging economies that still need to invest a lot. There is no reason this process will inevitably lead to asset bubbles. A tenuous argument about increased risk is no reason to accept the certain disaster that will occur if governments do not cut back on their promised entitlements.

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Recent Books on International Relations

Political and Legal

G. JOHN IKENBERRY

Trust in International Cooperation: International Security Institutions, Domestic Politics, and American Multilateralism. BY BRIAN C. RATHBUN. Cambridge University Press, 2012, 280 pp. $95.00 (paper, $32.99).

Mainstream theories of international cooperation posit that states build and operate within multilateral institutions to overcome problems of collective action. Taking a contrarian view, Rathbun argues that cooperation is better seen as a reflection of the beliefs people have about the trustworthiness of others. Borrowing findings from social psychology, Rathbun notes that people on the left tend to have a more benign view of human nature and see the world as less threatening than people on the right, and he hypothesizes that significant partisan differences exist on the issue of international cooperation. Rathbun applies his theory to the United States' great moments of institutional order building: the League of Nations, the United Nations, and NATO. In these episodes, Rathbun argues, Democrats were more trusting than Republicans, leading them to be more supportive of multilateral security cooperation. But it is hardly surprising that partisan differences exist regarding such issues, and that insight itself is not very useful in explaining the dramatic sweep of security cooperation in the twentieth century unless it is tied to grander theories of power and order.

Beyond Great Powers and Hegemons: Why Secondary States Support, Follow, or Challenge. EDITED BY KRISTEN P. WILLIAMS, STEVEN E. LOBELL, AND NEAL G. JESSE. Stanford University Press, 2012, 272 pp. $90.00 (paper, $25.95).

Observing that leading states cannot lead unless following states follow, the editors

L. CARL BROWN has retired as reviewer of the Middle East section, and we thank him for his outstanding contributions. We are fortunate to have as his successor JOHN WATERBURY, William Stewart Tod Professor of Politics and International Affairs, Emeritus, at Princeton University and President Emeritus of the American University of Beirut. We welcome him as a regular book reviewer with this issue.

of this volume argue that small and weak states actually have a continuum of strategies available to them, ranging from opposition to acquiescence. They can try to balance against the powerful state, "bandwagon" with it, or pursue compromise strategies such as "soft balancing" or binding the leading state to regional and global institutions. The book offers a dozen interesting case histories of responses to global hegemons and regional powers, the best of which delve into the domestic politics of secondary states and the ways in which political elites and interest groups are strengthened or weakened by ties to hegemons and, in turn, how this shapes the national orientation. A chapter on the responses of Australia, Japan, and Taiwan to the rise of China shows the complexity and ambivalence of weaker states in the region. In the competition for hegemonic leadership in East Asia, it remains a fascinating question whether American security ties or Chinese trade ties will prove more alluring to those secondary states.

Pax Ethnica: Where and How Diversity Succeeds. BY KARL E. MEYER AND SHAREEN BLAIR BRYSAC. PublicAffairs, 2012, 304 pp. $28.99.

In Africa, the Balkans, the Middle East, and South Asia, troubled countries have been torn apart by seemingly intractable struggles among hostile religious, ethnic, and sectarian groups. In the public imagination, such conflicts are deeply rooted in "ancient hatreds" or inevitable "clashes of civilizations." In this engaging book, two veteran journalists challenge that popular narrative by examining places around the world where diverse peoples have found ways to live together peacefully: from the Indian state of Kerala, where Hindus, Muslims, and Christians have prospered together; to the Russian republic of Tatarstan, where the Muslim majority has lived peacefully with the Orthodox Christian minority; to the borough of Queens, in New York City, where a dizzying array of ethnic, religious, and language groups coexist. The book is a sort of travelogue, laced with local histories and colorful personalities. But it lacks a unifying argument about why some diverse places thrive and others erupt in violence. Capable political leadership appears to help, as does a shared sense of citizenship, complete with rights and protections. Alas, those insights are only faintly present in the book.

Rational Empires: Institutional Incentives and Imperial Expansion. BY LEO J. BLANKEN. University of Chicago Press, 2012, 218 pp. $85.00 (paper, $27.50).

What were the economic and geopolitical forces that led great powers to build empires and colonize distant peoples? And why did those empires later give way to movements for independence and self-determination? This provocative book by a young political scientist advances a rationalist theory of imperialism that sees all states as "revenue maximizers." Blanken argues that closed, autocratic states are more likely to engage in territorial conquests than open, representative regimes, because they are less likely to see the virtues of free trade or uphold international rules and institutions. Spain's imperial conquest of the New World is an example of a closed regime that sought overt political control of other territories. In contrast, the United States in the late nineteenth century had an open political system, which gave it fewer incentives to hold territory abroad. Blanken is careful to note that even open regimes, such as the nineteenth-century United Kingdom, can resort to territorial acquisition if constructing an informal empire is not possible and the lure of economic gain is sufficient. But missing from his account is a view of the subjugated and colonized peoples and their changing capacities for acquiescence and resistance.

The Credibility of Transnational NGOs: When Virtue Is Not Enough. EDITED BY PETER A. GOUREVITCH, DAVID A. LAKE, AND JANICE GROSS STEIN. Cambridge University Press, 2012, 248 pp. $95.00 (paper, $32.99).

Nongovernmental organizations (NGOs) are increasingly integral to the governance of the global system: monitoring elections, investigating human rights abuses, providing humanitarian assistance, and certifying good business behavior. But who or what ensures that these transnational groups themselves act ethically? In one of the best studies yet of this conundrum, the editors of this volume concede that no global judicial bodies supervise the conduct of NGOs. Nonetheless, as the book demonstrates, NGOs are extremely sensitive to criticism and to the fact that their authority flows from a reputation for fairness and integrity. Chapters explore NGOs in areas such as child labor, elections, and human rights, identifying the ways these groups have strengthened their credibility by increasing their own transparency, professionalizing their staffs, and integrating themselves into the wider community of NGOs, which informally commits them to shared standards of conduct. And although NGOs are not regulated, this book makes clear that they are disciplined by the complex donor-client environment in which they operate.

Economic, Social, and Environmental

RICHARD N. COOPER

Who Needs to Open the Capital Account? BY OLIVIER JEANNE, ARVIND SUBRAMANIAN, AND JOHN WILLIAMSON. Peterson Institute for International Economics, 2012, 132 pp. $25.95.

Since the 2008 financial crisis and the ensuing global recession, unemployment has risen almost everywhere, and governments have become increasingly wary of allowing capital to freely cross international boundaries, partly because they see such movement as a potential source of instability and partly because capital inflows can strengthen currencies, which can further harm employment. The authors of this study examine various efforts to restrict both inflows and outflows and are left troubled by the potential effects of overly aggressive restrictions. They distinguish between good and bad controls on cross-border movements of capital, although they concede the distinction is not always clear. They also urge the negotiation of an international code of conduct—analogous to the General Agreement on Tariffs and Trade enforced by the World Trade Organization—that would establish rules (or at least guidelines) to prevent undesirable capital controls, particularly those that distort trade, and actively encourage desirable ones, particularly those that foster financial stability.

Tearing Down Walls: The International Monetary Fund 1990–1999. BY JAMES M. BOUGHTON. International Monetary Fund, 2012, 1,036 pp. $90.00.

This massive tome is the fifth in a series of official histories of the International Monetary Fund, made possible by the author's access to internal IMF documents. The decade of the 1990s was an exciting period in international finance, and Boughton captures that excitement well. The Warsaw Pact collapsed and the Soviet Union unraveled, and most of the new states that emerged abandoned central planning and engaged with the market-oriented world economy, with plenty of technical advice from the IMF. In 1994, Mexico suffered a major financial crisis, which threatened to spread to other developing countries in Latin America. In 1997, financial crises broke out in several hitherto exemplary Asian economies, followed by emergencies in Brazil and Russia in 1998. The IMF was heavily involved in all of those episodes, often breaking new ground in its own procedures and in the magnitude of its financial support to troubled economies. Boughton tells these stories skillfully, sometimes with revealing insights into the inner workings of the IMF. His book will become a standard reference source on the organization.

Economics After the Crisis: Objectives and Means. BY ADAIR TURNER. MIT Press, 2012, 128 pp. $24.95.

Turner is an academic turned practitioner who chairs the board of the Financial Services Authority, the agency that regulates the British financial markets. He adopts a broad perspective on the role of economics in wealthy modern societies. He questions the efficiency of contemporary financial markets, arguing that merely redistributive activities have come to outweigh creative ones, that the social contributions of finance are difficult to identify, and that many "hedging" innovations have become necessary simply to protect against instabilities created by the financial system itself—hardly a net contribution to social welfare. On a more philosophical level, he addresses a persistent puzzle: although rich people tend to be happier than poor people, they do not seem to grow happier as they grow richer over time. Turner sees an answer in the role of social status. As people earn more, they tend to spend their new discretionary income on status symbols, such as luxury goods. But status is always relative and not necessarily obtainable through spending, and hence wealthier people feel a degree of frustration even as their incomes rise. Finally, Turner makes the case that growth should not be sought as an end in itself in rich countries. Rather, the focus should be on creating economic freedom and making possible a wide range of employment opportunities.

Betting on Biotech: Innovation and the Limits of Asia's Developmental State. BY JOSEPH WONG. Cornell University Press, 2011, 216 pp. $29.95.

Wong deftly evaluates the efforts of three Asian "tigers"—Singapore, South Korea, and Taiwan—to enter the biotechnology sector, seen by leaders in all three places as a vital industry of the future. All three have devoted significant public funding to biotechnology development and adjusted local laws and practices to support their bets. The chosen vehicles for their prospective success differ among the three: small and medium-sized local enterprises in Taiwan, large and diversified firms in South Korea, and multinational enterprises in Singapore. In all three, the responsibility for carrying out specific initiatives has been left more to individual firms than to government agencies, but all three governments have supported a few conspicuously high-performing companies. Nevertheless, the overall results have been disappointing so far. It is taking much more time and training to achieve successful commercial biotechnology development than it took to develop the electronics industries that thrived in all three places during an earlier era. Compared to developing electronics, developing biotechnology is proving to be a much more difficult task for these three economies, and their success in the field is far from assured.

The Green Paradox: A Supply-Side Approach to Global Warming. BY HANS-WERNER SINN. MIT Press, 2012, 288 pp. $29.95.

Sinn casts a skeptical eye toward some of the popular nostrums for climate change. He emphasizes the distinction between environmental objectives and policy instruments, arguing that evaluations of the instruments should be based on their actual contributions to objectives, and not on the good feelings that we may get from having simply done something. Along those lines, Sinn doubts that switching to biofuels will significantly help restrain climate change and suggests focusing instead on the "oil sheiks" and "coal barons" who in his judgment are producing far too much fossil fuel, partly because they fear the ultimate success of biofuels and the adoption of stronger environmental policies by rich countries. He proposes a worldwide limit on greenhouse gas emissions, enforced through a global cap-and-trade system and complemented by the levying of income taxes on the earnings that sheiks and barons make on their overseas financial investments, thus creating an incentive to leave more fossil fuels in the ground.

Military, Scientific, and Technological

LAWRENCE D. FREEDMAN

Embers of War: The Fall of an Empire and the Making of America's Vietnam. BY FREDRIK LOGEVALL. Random House, 2012, 864 pp. $40.00.

Before the Quagmire: American Intervention in Laos, 1954–1961. BY WILLIAM J. RUST. University Press of Kentucky, 2012, 352 pp. $40.00.

These two books describe how the United States' role in former French Indochina developed during the 1950s; they are, in essence, pre-histories of the Vietnam War. Logevall's book is magisterial. It focuses on the American response to the steady deterioration in France's position leading up to its calamitous defeat at the hands of the Vietminh at Dien Bien Phu in 1954 and the awkward compromises produced by the Geneva Conference later that year. Logevall ponders the dilemmas faced by U.S. President Dwight Eisenhower, who was reluctant to be seen as giving an inch to the Communists yet anxious to avoid committing ground troops to yet another East Asian conflict so soon after achieving a cease-fire in Korea. If there was to be any direct U.S. intervention on behalf of France, Eisenhower insisted that it have British support. But the United Kingdom, in the twilight of its own tenure as an Asian power, intended to steer clear of any Vietnamese (or Laotian) entanglements. The poor relationship between U.S. Secretary of State John Foster Dulles and his British counterpart, Anthony Eden, aggravated a basic disagreement between their two countries over how hard a line they ought to take, with the British more ready to make deals with the Communists. Logevall draws on a vast range of sources, cleverly analyzing the writer Graham Greene's journalism and his novel *The Quiet American*, and the controversies they generated, to illuminate the tension between British cynicism and American idealism.

Although the conflicts in Vietnam and Laos were tightly linked, the story of American involvement in the latter is far less well known. Even at the time, it did not attract the attention of the journalists and commentators who made their way to Vietnam. For that reason, Rust's first-rate account focuses mainly on policymakers. Like Logevall, Rust details the divisions between the Americans and the British and within the U.S. government itself, as the Americans tried to cope with a country whose politics they did not fully understand, at one point simultaneously supporting the Laotian government and a general plotting a coup against it.

War Time: An Idea, Its History, Its Consequences. BY MARY L. DUDZIAK. Oxford University Press, 2012, 232 pp. $24.95.

This is an intriguing little book. When, Dudziak asks, does "wartime" begin and end? Even in the case of wars that seem to have clear beginnings and endings, such as the two world wars, it turns out that there is fuzziness at both ends. Indeed, Dudziak notes that to judge from the campaign medals awarded to members of the U.S. armed forces for service in military operations, there barely seems to have been any time in "postwar" American history that was not, in some sense, wartime. In democratic countries, war is assumed to be an exceptional condition that makes it acceptable for governments to suspend normal rights and liberties. But the "war on terror" suggested how that process could become interminable. This is a thoughtful and original take on the concept of war. But it is less convincing as an explanation for the application of exceptional measures. Successive British governments, for example, insisted that there was no war in Northern Ireland but nevertheless enacted far-reaching antiterrorist legislation.

Manhunt: The Ten-Year Search for bin Laden From 9/11 to Abbottabad. BY PETER L. BERGEN. Crown, 2012, 384 pp. $26.00.

The story of Osama bin Laden's demise contains two paradoxes. First, it is a tale of screwups, false starts, and missed opportunities that is at the same time a story of smart (if not quite conclusive) intelligence work, meticulous (although by no means risk free) planning by an elite unit, and levelheaded decision-making by U.S. President Barack Obama. Second, it reveals a legendary terrorist leader boldly living and scheming just a mile away from Pakistan's premier military academy but unable to even venture outside, let alone sustain a semblance of authority over his declining organization. Indeed, in his final days, bin Laden cut a rather pathetic figure, applying Just For Men hair dye to his beard and watching old videos of himself. Bergen captures both paradoxes superbly, drawing on his excellent government sources, his deep knowledge of al Qaeda, and his reporter's instincts (which got him into the Abbottabad compound just after the raid). His book is full of fascinating details and illustrates the immense pressure on national security bureaucracies to provide options to policymakers and then reduce the risks associated with their implementation.

The Operators: The Wild and Terrifying Inside Story of America's War in Afghanistan. BY MICHAEL HASTINGS. Blue Rider Press, 2012, 432 pp. $27.95.

In this book, Hastings, a young freelance reporter, chronicles his adventures covering the war in Afghanistan. He believes the American-led military intervention there was unwise and will lead to no lasting benefits, for it has been based on self-serving myths about counterinsurgency strategies and the quality of the Afghan state. The book includes some sharp accounts of the stresses the war has placed on American troops and features a depressing portrayal of Afghan President Hamid Karzai. But the heart of the book is the story of how Hastings managed to get access to General Stanley McChrystal, then the commander of U.S. forces in Afghanistan, and members of his inner circle in order to write a profile for *Rolling Stone*. Their unguarded behavior and comments, which Hastings duly reported, ultimately cost McChrystal his job. The book addresses important issues about how reporters should relate to the military and the wars it fights, as well as less important ones about how Hastings organizes his life.

The United States

WALTER RUSSELL MEAD

Hitlerland: American Eyewitnesses to the Nazi Rise to Power. BY ANDREW NAGORSKI. Simon & Schuster, 2012, 400 pp. $28.00.

Public opinion plays an immense role in the development of American foreign policy, but the question of how Americans form their impressions of foreign leaders and regimes has not received the attention it deserves. Nagorski's brisk and engaging account of American encounters with Nazi Germany is helpful in this regard. Nagorski follows various Americans and part Americans who lived or traveled in Germany between the two world wars. The picture is mixed: some Americans grasped the nature of Hitler and his movement early on; others defended it until quite late. Ideology played a part in determining those responses, as Americans saw Germany through their own preconceptions and political sensibilities. But it seems clear that the increasingly naked brutality of the Nazi regime, its oppression of German Jews, and its expansionist ambitions rapidly reduced the number of Americans ready to defend it. This is popular history, not a scholarly study, and much of Nagorski's story will be familiar to those with some knowledge of the period. But it is good popular history and well worth a read.

Bad Religion: How We Became a Nation of Heretics. BY ROSS DOUTHAT. Free Press, 2012, 352 pp. $26.00.

Douthat has tried something very brave in this concise and original book: he draws a link between some of the ills in American politics and culture and the decline of orthodox Christian belief since the post–World War II heyday of figures such as Archbishop Fulton Sheen and the theologian Reinhold Niebuhr. American religion is a complicated subject, and Douthat's knowledge of Protestant denominational and theological details sometimes fails him. But his strong core argument is that Niebuhr was right: when American Christianity loses its grip on the idea of original sin, it rapidly falls victim to cultural fads and nationalist pride. Belief in the perfectibility of man leads to unreasoning optimism in the United States' capacity to change both itself and the world; when these unrealistic hopes are not realized, Americans quickly turn to an equally unreasoning despair and fall prey to apocalyptic forebodings. Douthat sees this syndrome at work on both the left and the right today and argues that healthier political debate requires a reengagement with orthodox Protestant and Catholic ideas.

The Lost Majority: Why the Future of Government Is Up for Grabs—and Who Will Take It. BY SEAN TRENDE. Palgrave Macmillan, 2012, 272 pp. $27.00.

Trende has developed a reputation as one of the country's most promising younger political analysts. In this iconoclastic, detailed study, he takes on one of the most visible and widely supported theories in contemporary American politics: the idea that periodic realignments of voters produce stable political eras in which one party is the natural party of government (the "sun party") and the other major party (the "moon party") is only rarely able to prevail. Trende makes a strong argument that American politics is surprisingly fluid and that the widespread belief in the existence of distinct eras—such as the New Deal era, from 1932 to 1968, or the era of Republican ascendance, from Richard Nixon through George W. Bush—does not hold up under close examination. Trende also takes on the more recent claims that either the Democrats or the Republicans are headed for long-term political dominance. Instead, he argues, coalitions will continue to fray as new issues emerge and old ones fade, groups of voters shift their allegiances, and the parties adapt to changing electoral circumstances.

Twilight of the Elites: America After Meritocracy. BY CHRISTOPHER HAYES. Crown, 2012, 304 pp. $26.00.

Hayes, an editor-at-large of *The Nation* and host of the MSNBC talk show *Up With Chris Hayes*, has written a perceptive and searching analysis of the problems of meritocracy. Over the last two generations, recruitment into the top ranks of American life has had less to do with background and breeding and more to do with the ability to score well on tests and otherwise impress admissions bureaucracies at prestigious schools. The winners in this system, whether they become well-paid investment bankers, top professors, or senior government officials, believe that their prominence (and the rewards that go with it) are well deserved. Hayes has his doubts, and although some of his specific arguments are rooted in the language of the left, the critique of meritocracy is also a traditional staple of conservative thought. Given the poor records of elite individuals and elite institutions in recent years, the debate over meritocracy will likely become more intense.

Time to Start Thinking: America in the Age of Descent. BY EDWARD LUCE. Atlantic Monthly Press, 2012, 320 pp. $26.00.

In the debate over whether the United States is in decline and, if it is, what should be done about it, Luce takes a strong view. American decline is well under way, he argues, and the odds for a reversal of fortune are perhaps lower than Americans would like. On the one hand, Luce sees an inexorably rising China, which even according to conservative projections may have a GDP that is 25 percent bigger than that of the United States by 2030. On the other, Luce sees a United States that cannot reform. Tea Party fervor ensures that the GOP will be strong enough and conservative enough to block needed change. President Barack Obama, in Luce's view, lacks the political drive and skills to push the GOP back. Most fundamentally, Luce fears that the United States no longer knows how to promote the prosperity of the American middle class. In this well-reported and extensively researched book, Luce puts his finger on many of the country's most serious problems and explores the gaping disconnect between elite optimism and popular bewilderment, anger, and despair.

Western Europe

ANDREW MORAVCSIK

Walther Rathenau: The Life of Weimar's Fallen Statesman. BY SHULAMIT VOLKOV. Yale University Press, 2011, 256 pp. $25.00.

During the first decades of the twentieth century, Walther Rathenau headed one of Germany's largest corporations, penned thoughtful works of social philosophy, and served briefly as the Weimar Republic's foreign minister, before anti-Semitic radicals gunned him down in 1922. As a businessman, intellectual, moderate politician, unconverted Jew, and perhaps also gay man, he symbolizes the progressive forces that eventually failed to block the Nazi cataclysm. Much has been written about him, but Volkov's short biography focuses uniquely on Rathenau's inner ambivalence and conflict. His arrogant, distant, contradictory, and meddling persona triggered vicious hatred but also fascinated great novelists, such as Robert Musil. In his public writings and speeches, Rathenau criticized capitalists, Jews, partisan politicians, nationalists, and modern artists, yet in his private life, he cultivated and emulated them. Volkov believes Rathenau's inner turmoil stemmed largely from his Jewishness, which set him apart. Yet perhaps Volkov underestimates how much Rathenau was a man of his times. With so many social conflicts swirling about, anyone who sought to reconcile and reform the disparate elements of German society was destined to become a man with too many qualities.

The Headscarf Controversy: Secularism and Freedom of Religion. BY HILAL ELVER. Oxford University Press, 2012, 288 pp. $55.00.

Elver analyzes the headscarf debate in Denmark, Germany, the United States, and especially France and Turkey. She advocates protecting headscarves by enforcing a right to personal religious choice. The European Court of Human

Rights should be more consistently secular in its jurisprudence, she argues, particularly as applied to Muslim symbols, adding that attempts to ban headscarves rest on prejudice and misunderstanding. The real and often silent victims of a ban, she claims, are women who freely choose the headscarf and must thus endure the "social tragedy" of isolation. Other unintended consequences, she maintains—without much empirical evidence—include the de facto exclusion of Muslim women from the workplace and the encouragement of religious fundamentalism. In most Western countries, the headscarf question (at least concerning adults) has been all but resolved in favor of Elver's position, with the debate now largely restricted to more extreme forms of traditional religious dress, such as the *burqa* and the *niqab*, which conceal nearly the entire body. The book provides an insightful perspective on this trend, grounded more in constitutional law than empirical sociology or political history.

Governing for the Long Term: Democracy and the Politics of Investment. BY ALAN M. JACOBS. Cambridge University Press, 2011, 320 pp. $93.00 (paper, $25.99).

Policymakers and journalists tend to live in the here and now. They leave it to social scientists such as Jacobs to tackle important issues that are too diffuse or complex to explain in a stump speech or a newspaper article. Many tough problems facing modern democracies require that immediate pain be inflicted on citizens in exchange for broader, long-term benefits. Jacobs argues that in order to succeed in managing these "intertemporal policy choices," politicians must surmount three political challenges: focusing the attention of voters, correctly predicting positive long-term trends, and committing to policy solutions even when they are opposed by influential interest groups. To simplify a complex argument, Jacobs is a Goldilocks democrat: only governments that are neither too populist nor too insulated can create and maintain fair long-term policies. This book contains much sound and detailed policy advice drawn from detailed case studies of policymaking in Canada, Germany, the United Kingdom, and the United States, especially with regard to pension reform. Yet Jacobs' insightful analysis can also be applied to debt reduction, global warming, education, immigration, and many other controversial issues.

Saving Europe: How National Politics Nearly Destroyed the Euro. BY CARLO BASTASIN. Brookings Institution Press, 2012, 404 pp. $34.95.

The euro hangs in limbo, and no one can be sure exactly how the current crisis will end. So one might be tempted to ignore a 400-page book written in midstream, most of which concerns the period—long ago, it seems—when Silvio Berlusconi still headed Italy, Nicolas Sarkozy still led France, and Greece still seemed salvageable. Yet Bastasin's book is worth reading for its detailed political narrative of the crisis to date, drawn largely from journalistic sources and focusing on the interaction among decision-makers in Europe's capitals. Bastasin is unsentimental and rightly rejects simplistic narratives that blame the crisis solely on fiscal profligacy, easygoing cultures, or corruption in Mediterranean countries. He highlights subtler factors, such as the advantages the single currency has afforded German lenders and exporters. In the end, however, Bastasin indulges in some federalist sentiments. The euro should be maintained, he urges, by surrendering outdated national identities and embracing cosmopolitan political solidarity—a solution that seems neither technocratically appropriate nor politically feasible.

The Patagonian Hare: A Memoir. BY CLAUDE LANZMANN. Farrar, Straus and Giroux, 2012, 544 pp. $35.00.

Most people never find anything serious about which to obsess. Lanzmann's early life suggested he would be no exception. Born in Paris in 1925 to Jewish parents, he joined the antifascist resistance as a teenager, served as Jean-Paul Sartre's right-hand man at *Les Temps Modernes*, spent years as Simone de Beauvoir's quasi-marital lover, and became a partisan in the politics of the French left. Noble causes all, but they amounted to little more than an evanescent dilettantism of a distinctively Parisian variety. Then, Lanzmann found his obsession: the Holocaust. This stream-of-consciousness autobiography describes—in excessive detail for most non-French readers—how gossipy and trivial Lanzmann's life had become, and then how the rediscovery of his Jewish heritage restored its focus. His 1985 film about the Holocaust, *Shoah*, was immediately hailed as a masterpiece. Nearly ten hours in length, it offers not only a fastidiously detailed history of Nazi extermination but also a remarkable innovation in documentary filmmaking. The film eschewed photos and films of the camps, relying instead on oral testimony, often with eyewitnesses (prisoners and guards alike) reenacting past events. On the surface, it is an

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understated, even bland mode of documentary. But it reveals layers of obsession: an obsessed director telling the stories of those obsessed with telling their stories.

Western Hemisphere

RICHARD FEINBERG

Cuban Economic and Social Development: Policy Reforms and Challenges in the Twenty-first Century. EDITED BY JORGE I. DOMÍNGUEZ, OMAR EVERLENY PÉREZ VILLANUEVA, MAYRA ESPINA PRIETO, AND LORENA BARBERIA. Harvard University Press, 2012, 388 pp. $24.99.

In this informative collection, leading Cuban social scientists express their frustration at the slow pace of economic reform, even as they recognize that the magnitude of Cuba's accumulated problems demands skillful surgery. Pavel Vidal Alejandro expertly unravels the distortions caused by the dual currency system and calls for a gradual transition to a single, devalued Cuban peso. Armando Nova González and Anicia García Alvarez document Cuba's disastrous agricultural sector and recommend strengthening property rights and creating market incentives to stimulate farm output. Drawing on opinion surveys, one of the book's editors, Espina Prieto, brilliantly smashes the myth that Cuba is a frozen-in-time society, revealing dynamic social mobility and changing values. Mindful that Cuba is a small island economy, Pérez Villanueva and Pedro Monreal González suggest realistic ways for the country to take better advantage of foreign investment and international value chains. As a whole, the essays in this book suggest that Cuba must replace its stagnant economic management with a more modern regime built around a smarter state, refined regulation, and targeted social welfare programs.

Shaping the Future of the Asia and the Pacific–Latin America and the Caribbean Relationship. BY THE ASIAN DEVELOPMENT BANK, THE INTER-AMERICAN DEVELOPMENT BANK, AND THE ASIAN DEVELOPMENT BANK INSTITUTE. Asian Development Bank, Inter-American Development Bank, and Asian Development Bank Institute, 2012, 142 pp. Free online.

This timely collaboration among regional development institutions details recent trends in trade, investment, and development cooperation between Asia and Latin America, a historic transformation of the global economy that is still in its early stages. Among the main findings and conclusions are the following: Asia's share of Latin American trade surged to 21 percent in 2011, second only to the United States', which was 34 percent; Asian investments in Latin America, although rising, are lagging relative to the growth of Asian–Latin American trade; and the two emerging regions could benefit from sharing development experiences in areas such as export promotion, poverty reduction, natural-disaster mitigation, and financial regulation. Indicating the high degree of transpacific dynamism, the study records 18 current interregional free-trade agreements and 12 more in the pipeline. To attract more high-quality Asian investment and technology, Latin American countries, the authors urge, should continue to liberalize their regulatory policies, upgrade their infrastructure, and invest in international education. Brief but illuminating case studies describe promising investments by large Latin American firms targeting growing Asian markets in food distribution, wind power generation, and iron and steel.

State-Building and Tax Regimes in Central America. BY AARON SCHNEIDER. Cambridge University Press, 2012, 260 pp. $90.00.

Schneider astutely observes how fiscal policies can illuminate underlying domestic power structures. In El Salvador, Guatemala, and Honduras, local capitalists have conspired to keep taxes low and regressive, preventing their governments from meeting basic responsibilities. Nevertheless, as Schneider shows, each country has its own particular story. In El Salvador, a relatively forward-looking and unified business class has abided a number of significant tax increases, whereas in Guatemala, ferociously reactionary and fragmented elites have made sure their tax rates remain among the lowest in the hemisphere. Part of the problem is the openness of these small economies and the mobility of capital, both of which put pressure on the governments to offer tax concessions to footloose investors. Another problem is the apparent unwillingness or inability of privileged families to extend their allegiances beyond their immediate circles to the broader national community. Schneider hopes the middle and popular classes in all three countries will mobilize on behalf of more egalitarian fiscal policies and stronger states capable of implementing shared national compacts. Such revised states might be drawn closer to their more prosperous neighbor, Costa Rica, which benefits from relatively well-established institutions and a firmer commitment to social democracy.

Promoting Silicon Valleys in Latin America: Lessons From Costa Rica. BY LUCIANO CIRAVEGNA. Routledge, 2012, 176 pp. $125.00.

In the 1990s, diminutive Costa Rica attracted a large research and manufacturing investment from the high-tech giant Intel. Ciravegna asks whether since then, the Central American country has developed its own domestic information technology cluster. His answer: yes and no. Costa Rica now boasts about 200 local information technology firms, and some 40 multinational corporations have established a presence there. But most of the local firms provide low-tech services, and many of the multinational technology companies have set up only back-office services and call centers rather than production facilities or research labs. Ciravegna argues that unlike the successful high-tech sectors that exist in India, Israel, and Taiwan, the high-tech sector in Costa Rica has few links to the kinds of diaspora communities and social networks that could bind it to flagship multinationals based in the United States. He offers various practical approaches to establishing the necessary transnational ties and innovation networks, such as assisting Costa Ricans to study abroad, offering more postgraduate programs for foreign students in engineering and computer science, and capitalizing on the nation's tourism destinations to attract international technology fairs.

The Brilliant Disaster: JFK, Castro, and America's Doomed Invasion of Cuba's Bay of Pigs. BY JIM RASENBERGER. Scribner, 2011, 480 pp. $32.00.

In the ongoing debate over who was responsible for the failed U.S. invasion of Cuba in 1961, Rasenberger rejects accusations that the CIA acted as an independent rogue power and instead blames Presidents Dwight Eisenhower and John F. Kennedy. But Rasenberger's real culprit is American political culture, with its paradoxical combination of hubris and insecurity, which simply could not tolerate sharing a hemisphere with an insubordinate Cuba. He depicts the early Kennedy White House as inexperienced yet headstrong, shockingly disorganized, driven by excessive testosterone and cynical self-interest. Yet Rasenberger also puts forward the novel theory that, whether through luck or calculation, the outcome for Kennedy was fortuitous: the failed invasion disposed of the pesky Cuban exiles and avoided the high costs of an American occupation. In the aftermath, the Kennedy White House became better organized and brilliantly handled the 1962 Cuban missile crisis. Nevertheless, the author asserts, "the best and the brightest" failed to question basic precepts of American interests and power and thus repeated many of the same errors, on a much larger scale, in Vietnam.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Reconstructing the Cold War: The Early Years, 1945–1958. BY TED HOPF. Oxford University Press, 2012, 320 pp. $39.95.

Three things make this book unusual. First is the impressive scale of the undertaking: it is the first volume in a planned trilogy dealing with the Cold War from beginning to end. Second, it treats theory as seriously as history. Finally, although Hopf's historical research is extensive and original, he is not out to explain the Cold War's sequence, dynamics, or turning points. Instead, he has plumbed Soviet political and cultural sources to reveal something more original: how the official reading of political realities during and immediately after Stalin's rule, together with alternative readings that were subtly cultivated in cultural and academic institutions, accounted for the way in which the Soviet Union played its role in the early years of the Cold War. Hopf is a leading exponent of constructivist theory, and his trim, modified version of that approach brings a fresh perspective to why Stalin and his successors acted as they did in Eastern Europe and the developing world. However, as Hopf acknowledges, the theory contributes less to understanding the interplay with the United States and other major powers.

The Last Dictatorship in Europe: Belarus Under Lukashenko. BY BRIAN BENNETT. Columbia University Press, 2012, 256 pp. $35.00.

To call Belarus "Europe's last dictatorship" has become a cliché. The description is accurate but incomplete, and thus misleading. It suggests that the dictator Aleksandr Lukashenko's regime represents a vestige of the past likely to go the way of its kindred anachronisms. In fact, Lukashenko's authoritarian system constitutes a fresh incarnation of repression, with no end in sight. Bennett was the United Kingdom's ambassador to Belarus from 2003 to 2007 and tells a firsthand tale of how Lukashenko methodically transformed a firm grip on power into an airless, brook-no-opposition tyranny. Bennett, like other authors before him, recognizes that as large as Lukashenko's role is, Belarus' history and the character of its elites abetted the country's descent into dictatorship. His discouraging verdict is that short of an act of God or a fundamental change of heart on the part of Belarus' allies in Russia, a physically vigorous Lukashenko is, as Belarus' constitution now permits, there for life.

Worlds of Dissent: Charter 77, the Plastic People of the Universe, and Czech Culture Under Communism. BY JONATHAN BOLTON. Harvard University Press, 2012, 360 pp. $49.95.

Western scholars of the Cold War have only recently begun to try to reconstruct what life was actually like in Eastern European societies during the Soviet era. And until the publication of this book, the phenomenon most central to the Western narrative of communism's collapse—dissident opposition—had escaped this treatment. In an intelligent, fluent study of Czechoslovak dissent in the 1970s and 1980s, Bolton pushes aside the mythologized image of Czechoslovak dissidents and examines the diverse and sometimes conflicted ways they went about their lives. He is not so much deflating the political influence or courage of dissidents such as Václav Havel and Adam Michnik as he is "explaining the texture and psychology of dissident life," breaking down the compartmentalized notions of dissidence and ordinary life and allowing them to flow together. In doing so, he affords a much broader understanding of what constituted a defection from regime orthodoxy, including the role of the underground music scene and the free thinkers and artists whose work predated the existence of a "dissident" label.

Bought and Sold: Living and Losing the Good Life in Socialist Yugoslavia. BY PATRICK HYDER PATTERSON. Cornell University Press, 2011, 388 pp. $39.95.

"Consumer-oriented communist society" sounds like an oxymoron. But that phrase, Patterson argues, perfectly describes the Yugoslav system in the 1970s and 1980s. Once Marshal Tito broke with the Soviet Union in 1948 and launched Yugoslavia on a new path focused on worker self-management, a spirit of consumerism gradually began to take hold. The public, pushed by advertising agencies and encouraged by Communist Party bureaucrats, bought into consumption as a way of life. And eventually, consume they did—on a level fundamentally similar to their capitalist neighbors and fundamentally unlike any of the other socialist countries. Patterson captures the scale and shape of the buying, the power of advertising, and the effect of Yugoslav guest workers returning from capitalist consumer societies. He also chronicles the misgivings about consumer culture felt in some parts of society and their efforts to tame and then fight the values that came with the goods. Nonetheless, consuming held the country together. When the economic crisis hit in the 1980s, the good life dissipated, and Patterson maintains that the loss of that source of legitimacy did as much to sunder the country as the rise of ethnonationalism.

Great Games, Local Rules: The New Great Power Contest in Central Asia. BY ALEXANDER COOLEY. Oxford University Press, 2012, 272 pp. $29.95.

The field of Central Asian studies needs this book. Cliché-ridden thinking blights much popular commentary on the region and the putative competition under way there among China, Russia, and the United States. Cooley brings firsthand research and a detached, sensible eye to a complex, fast-moving subject. In brisk steps, he demonstrates that the "game" today is not the same one played by the great powers in the nineteenth century. Although competition exists among the major players, so does a considerable degree of cooperation. In today's game, the Central Asian states are not helpless pawns but more than adept at writing and then exploiting the rules. That said, the way the greater powers pursue their agendas has an ugly side: increased corruption, human rights abuses, and political entropy. In addition to crafting a refined assessment of Chinese, Russian, and U.S. policies in the region and the Central Asian response to them, Cooley also speculates about what the dynamic in Central Asia indicates about how an emerging multipolarity might figure in other key regions of the world.

Western Intervention in the Balkans: The Strategic Use of Emotion in Conflict. BY ROGER D. PETERSEN. Cambridge University Press, 2011, 350 pp. $99.00 (paper, $32.99).

Academics who study the scourge of civil war tend to see the engineers of violence as rational actors engaging in carefully calculated cost-benefit analyses. Peterson fights that line of thought. He finds the conventional analysis inadequate and believes it leads to wrong-headed explanations of why the international community's efforts to mitigate civil wars often fall short. Having spent years trying to understand the violence in the former Yugoslavia, he insists that those who have no interest in peace skillfully exploit fear, anger over lost status, and the desire for revenge generated by the bloodletting. International peacemakers, operating from conventional rational-choice calculations that rely on material incentives, do not understand the asymmetric disadvantage they are at when the rawness of emotions is used to thwart their efforts. Petersen not only presents rigorous, detailed case studies of the intervention in Kosovo and other Balkan interventions; he also demonstrates the similarities between them and other cases of interethnic conflict, such as in Rwanda and Northern Ireland.

Middle East

JOHN WATERBURY

Notes on a Century: Reflections of a Middle East Historian. BY BERNARD LEWIS WITH BUNTZIE ELLIS CHURCHILL. Viking Adult, 2012, 400 pp. $28.95.

Even if Lewis' academic career had been half its length, his memoir would still command extensive attention among all those concerned with the Middle East. However, those looking for a meticulous historical account of his career will be disappointed. His reflections are more lighthearted than profound, more anecdotal than analytic. And why not? In the ripeness of his years, Lewis is a happy man. He portrays himself as a historian self-consciously looking over his shoulder at the three facets of his persona—Jewish, British, and Western—and trying to correct for any bias they might produce. But he seems not to have noticed that as his profile as a public intellectual grew, his ability to correct sometimes faltered. Even now, Lewis extends no olive branch to his nemesis, the late Edward Said, dismissing Said's argument that Orientalist European scholarship played a role in European imperial expansion as "just plain wrong" and as "an absurdity." He rails against what he sees as the political correctness that followers of Said introduced to the study of the Middle East and Islam, describing his struggle against them as a "battle . . . between enforced ideology and freedom." In so doing, he disregards the enforced correctness of what many regard as his side.

Israel, Jordan, and Palestine: The Two-State Imperative. BY ASHER SUSSER. Brandeis University Press, 2011, 312 pp. $85.00 (paper, $29.95).

This careful analysis of a century of efforts to solve the Israeli-Palestinian conflict will not inspire optimism. Susser knows the terrain as well as anyone. His informed, balanced analysis reveals just how little the terms of the conflict have changed over the decades. The "1948 file" (refugees and Jerusalem) is pitted against the "1967 file" (settlements and territory). The latter is tractable. But the former has proved intractable: the Palestinian insistence on the right of return scuppered the Camp David talks in 2000 and has motivated Israel's demand that the Palestinians recognize the state's "Jewishness." Susser's critical pulse races when he discusses proponents of a one-state solution and the Israeli settler movement: he shows no empathy for either. His answer to the impasse is to call for an Israeli withdrawal to the pre-1967 borders and to hope for the best in resolving the refugee issue in less fraught times.

When Victory Is Not an Option: Islamist Movements in Arab Politics. BY NATHAN J. BROWN. Cornell University Press, 2012, 272 pp. $69.95 (paper, $24.95).

This is an important book not only for its rich empirical exploration of the Muslim Brotherhood in four settings (Egypt, Jordan, Kuwait, and the Palestinian territories) but also for its insights into semiauthoritarian regimes, which allow opposition groups just enough room to organize and compete but not enough to win elections or form governments. Relying on extensive contacts with Brotherhood leaders, Brown explains how they saw advantages—such as gaining the right to legal assembly and being allowed to propagate their views and deliver basic services to the needy—to playing a game they were destined to lose. Whatever the merits of that strategy, even the relatively disciplined, ideologically consistent Brotherhood movements in Egypt and Tunisia did not precipitate the collapse of the semiauthoritarian regimes that had repressed them for decades. And even with the downfall of those regimes, Islamists in Egypt and Tunisia might not be able to mutate into more flexible political parties competing for votes. As the case of Turkey indicates, Islamist movements might have to wither before Islamist political parties can succeed.

The Arab Revolution: Ten Lessons From the Democratic Uprising. BY JEAN-PIERRE FILIU. Oxford University Press, 2011, 208 pp. $21.95.

Filiu has produced an annotated chronology of the Arab uprisings that began in late 2010, based on the evidence available as of May 2011. It is an optimistic rendering, predicting the end of Arab presidents for life. He believes Islamists and jihadists were wrong-footed by the revolts, alluding to "the irrelevance of the Islamic factor"—a conclusion that recent events call into question. Nevertheless, he rightly emphasizes the role of the youth bulge and high levels of unemployment in the Arab world, and he highlights the role of organized labor in launching the protests in Egypt and Tunisia. He concludes that the uprisings signaled a "tide" of an Arab democratic renaissance. Although he predicts temporary reversals, he does not see that tide ebbing in the near term. Unfortunately, Filiu makes almost no effort to situate his analysis in the broader literature on authoritarianism and democratic transitions. Thus, although he claims to reject the notion of Arab exceptionalism, he nevertheless treats the Arab world as somehow sui generis.

Islamism and Islam. BY BASSAM TIBI. Yale University Press, 2012, 368 pp. $30.00.

Tibi, a German Muslim of Syrian descent, describes himself as an "Islamologist," analogous to the Sovietologists of an earlier era. His informed argument distinguishes between the religion of Islam and the totalitarian ideology of Islamism, which seeks to establish a global Islamic state governed by sharia. In this sense, jihadists and nonviolent Islamists share the same goal; only their means differ. "It is a great mistake to view Islamism as liberation theology characterized by an 'attempt to repair,'" Tibi writes. "No, it is an agenda of cultural-totalitarian purification." One cannot easily dismiss Tibi as an alarmist, but his argument does not allow for gray areas. Inveighing against those he sees as apologists, the naive, and the deceitful, Tibi hopes to engage his fellow Muslims in a revival of their classical, pluralistic heritage, because the effort to contain and reverse Islamism can come only from within. In the meantime, Tibi concludes, Islamism will remain "the most popular public choice in the world of Islam."

The Rise and Fall of Arab Presidents for Life. BY ROGER OWEN. Harvard University Press, 2012, 272 pp. $24.95.

This study of seven Arab presidents for life was written largely before the Arab uprisings began in late 2010. It involves no original research but reflects decades of close analysis of Arab politics and economics. Beginning with Syria's Hafez al-Assad, who came to power in 1970, the Arab world has produced not only presidents for life but also would-be dynasts. No other place, save North Korea and perhaps Central Asia, has exhibited this phenomenon. Owen points to some familiar factors to explain it: oil rents, conflict with Israel, intervention by outside powers, and brutal police states. Owen suggests that like Mafia dons, Arab presidents for life observed one another and learned from one another's experiences and argues that the Arab League has provided a loose supportive framework for their ambitions. Although the shadows of monarchical presidents will be cast long into the future, Owen is confident that the uprisings have brought their era to an end.

Asia and Pacific

ANDREW J. NATHAN

The Impossible State: North Korea, Past and Future. BY VICTOR CHA. Ecco, 2012, 544 pp. $32.99.

This is a meaty, fast-paced portrait of North Korean society, economy, politics, and foreign policy by an expert who has studied the regime as a scholar and interacted with its officials while serving on the National Security Council under U.S. President George W. Bush. Cha explains, among other things, why the much-abused North Korean people seem to love the ruling Kim dynasty, why life in Pyongyang looks normal despite a long-running famine, why the West underplays human rights when negotiating with North Korea, and why Beijing supports Pyongyang despite tensions between the two governments. He defends the Bush administration's tough talk and the short-lived agreements it reached with North Korea in 2005 and 2007. Cha claims that Pyongyang's goal is not just American acknowledgment of its right to keep nuclear weapons and a U.S. guarantee not to attack but also an American pledge to protect the Kim dynasty's rule. He concludes, however, with the prediction that the regime will fall within ten years. The United States needs to talk with a reluctant China about how the two sides would handle this eventuality.

China 2030: Building a Modern, Harmonious, and Creative High-Income Society. BY THE WORLD BANK AND THE DEVELOPMENT RESEARCH CENTER OF THE STATE COUNCIL OF THE PEOPLE'S REPUBLIC OF CHINA. World Bank, 2012, 448 pp. Free online.

The World Bank and the Chinese government collaborated on this report, which suggests strategies to help China avoid the "middle-income trap" as wages rise, the benefits of technology become less dramatic, state investment in infrastructure becomes less effective, the population ages, and environmental remediation becomes more costly. The report also has a political subtext, which might reflect the intentions of some members of China's incoming leadership, since the report was co-authored by staff from China's cabinet-level Development Research Center and its Ministry of Finance. These themes include speeding the liberalization of the *hukou* (household registration) system, which denies rural residents social services if they move to the cities to find work; enhancing the weak social safety net; protecting land rights; allowing civil-society organizations to provide more social services; increasing intellectual, artistic, and academic freedom; and making officials observe the rule of law. The report also says that the Chinese government should reduce its intervention in markets and increase the economic role of private entrepreneurs, which presumably would give them more political clout as well. With respect to China's international posture, the report conspicuously endorses the idea of China as a "stakeholder," a concept first advanced in 2005 by then U.S. Deputy Secretary of State Robert Zoellick, who recently ended his tenure as president of the World Bank.

Hard Interests, Soft Illusions: Southeast Asia and American Power. BY NATASHA HAMILTON-HART. Cornell University Press, 2012, 256 pp. $39.95.

Hamilton-Hart raises a fascinating, overlooked question: Why is the United States widely viewed as a benign power in Southeast Asia, its presence welcomed rather than feared despite the many violent, selfish, and unwise things it has done over the years? She is not satisfied with the obvious answers: that the United States is far away and presents no territorial threat, that it promotes capitalist development and maritime security to the benefit of all, and that it acts as a counterweight to China. Her core answer to the puzzle is the overlap of local elite interests with American anticommunism during the Cold War, which gave rise to a consensus viewpoint that has reinforced itself over time. For Southeast Asian elites—although not for labor movements or insurgent groups—the U.S. presence has in fact been largely beneficent. Thus, the "interests" of her title seem to trump the "illusions." As is often the case with constructivist analyses, such as this one, it is hard to distinguish the effect of perceptions from the effect of the actual material realities that actors perceive.

Nepal in Transition: From People's War to Fragile Peace. EDITED BY SEBASTIAN VON EINSIEDEL, DAVID M. MALONE, AND SUMAN PRADHAN. Cambridge University Press, 2012, 412 pp. $99.00 (paper, $34.99).

Six years ago, the overthrow of the Nepalese monarchy and a negotiated peace brought the self-declared (but not Chinese-endorsed) Maoist insurgents into government in Nepal. Today, the country is stuck. The parties are deadlocked, the police and the courts are ineffective, and the bureaucracy is corrupt. Despite an agreement to merge forces, the army and the insurgents sit in separate camps, poised to resume fighting. A promised new constitution is overdue. The rural poverty, bonded-labor practices, and social and political exclusion of ethnic and caste minorities that sparked the insurgency remain unaddressed. Some benefit was gained from international aid efforts and two now-terminated UN missions, one focused on human rights and the other on peace monitoring—but not enough to create momentum. Nepal's giant neighbors, China and India, contend for strategic position with little concern for Nepal's complex internal problems. The book's deeply informed contributors from the diplomatic, nongovernmental organization, academic, and journalistic worlds look hard for rays of hope, but they find few.

Cybersecurity and U.S.-China Relations. BY KENNETH LIEBERTHAL AND PETER W. SINGER. Brookings Institution, 2012, 41 pp. Free online.

This report considers how hacking, cyber-espionage, and the threat of cyberwarfare affect U.S.-Chinese relations. Americans hear more about Chinese threats to the United States than vice versa, but it is likely that U.S. private and government actors are probing China's Internet as much or more than the Chinese are probing that of the United States. And in cyberspace, the advantage goes to the offense. On key issues relating to the

Internet, Chinese and U.S. interests are fundamentally opposed. The United States favors information freedom, whereas China's regime relies on control. The U.S. military operates on cybernetworks, whereas the Chinese quest for asymmetric strategies requires the capability to take such networks down. Even dialogue, which Lieberthal and Singer advocate as a first step in a long march, will be a challenge, given the diffusion of control over the Internet within each society. Moreover, one wonders whether even two such important powers can do much to enhance cybersecurity when potential attackers are globally dispersed and often private.

Politeness in East Asia. EDITED BY DÁNIEL Z. KÁDÁR AND SARA MILLS. Cambridge University Press, 2011, 330 pp. $105.00.

Most people learn how to be polite without thinking much about the lexical rules that underlie their choices of expressions. But this book presents research from a subfield of linguistics called politeness studies, which analyzes and compares such rules within and across societies. Chapters on China, Japan, Singapore, South Korea, and Vietnam show how terms of address, verb forms, pronouns, and honorifics vary depending on situations and relationships. The societies do not differ much in the cultural values that politeness expresses, such as seniority, reciprocity, humility, and conflict avoidance. But there are such big differences in how they are expressed that even small deviations mark a speaker either as a foreigner or as someone who wants to resist mainstream values. Nevertheless, in all five countries, one universal principle underlies the fine-grained distinctions on which courtesy rests: politeness is used to express, reinforce, or contest power relationships.

Social Protest and Contentious Authoritarianism in China. BY XI CHEN. Cambridge University Press, 2011, 256 pp. $95.00.

This book puts forward a novel theory of social protest in a transitional authoritarian regime. Chen argues that contradictions between the ruling Chinese Communist Party's ideology and its governance, along with changes in the country's political and economic institutions, have provided more opportunities for ordinary Chinese citizens to press for their demands directly with the government. The party pays lip service to popular sovereignty and "rule according to law." But its behavior denies both, thus legitimizing and fueling protest. The dismantling of official agricultural communes and many state-owned enterprises in the 1980s and 1990s has left local governments as the only place where aggrieved individuals can seek redress. Chen demonstrates that protesters get their way by adopting more confrontational tactics. But China's rulers need not worry about a revolution, because social protest and official responses appear to have settled into an uneasy equilibrium, which Chen terms "contentious authoritarianism." Within this equilibrium, protesters use the most effective tactics to gain concessions from pragmatic officials who choose to be flexible enough to respond to their demands. The author seems to suggest, provocatively, that low-intensity social conflict may function like a pressure valve mitigating more lethal systemic risks—an argument sure to stimulate more debate and research.

MINXIN PEI

Africa

NICOLAS VAN DE WALLE

War and Conflict in Africa. BY PAUL D. WILLIAMS. Polity Press, 2011, 320 pp. $69.95 (paper, $24.95).

Why has Africa experienced so many armed conflicts since the end of the Cold War? Williams rejects monocausal arguments in this very readable synthesis of the literature on civil wars in the region since 1990. He also argues for a clear distinction between underlying factors that make conflict more likely (such as poor governance by African regimes, contests over natural resources, and the ethnic and religious heterogeneity of African societies) and trigger factors that push specific actors to violence (such as miscalculation, greed, or personal ambition). Williams takes a rather pessimistic view of international responses to conflict in the region, such as the creation of conflict-prevention organizations, peacekeeping missions, and power-sharing peace deals. He views these efforts as typically underfunded, ill timed, or not well suited to the dynamics of the actual conflicts. Equipped with an impressive command of the different struggles that have ravaged the region, Williams has written a superb overview of this complex subject without resorting to academic jargon. It deserves to be read by novices and specialists alike.

The Night Wanderers: Uganda's Children and the Lord's Resistance Army. BY WOJCIECH JAGIELSKI. TRANSLATED BY ANTONIA LLOYD-JONES. Seven Stories Press, 2012, 288 pp. $18.95.

This semifictional account of child soldiers in Joseph Kony's Lord's Resistance Army paints a bleak picture of northern Uganda, where Kony's rebellion has scarred the population and corroded the Ugandan army and state. The book's main character is a young boy who escaped from Kony's army and is now in a rehabilitation center. Abandoned by his relatives, the boy has few prospects and multiple murders on his conscience. Jagielski tells the story in an affecting manner, although he offers no new insights into the methods Kony's officers use to transform young boys and girls into killers. He is more interested in describing how the conflict has destroyed the sense of community in a desperately poor region and perverted the relationships between children and adults. He also reflects on the highly ambiguous nature of the conflict, suggesting some degree of complicity between the Ugandan army and officers in Kony's group and tracing the hostility of northern populations toward the regime of President Yoweri Museveni to its roots in the 1980s, when Museveni came to power and repressed the remaining pockets of support in the north for the previous regime.

The Scramble for African Oil: Oppression, Corruption, and War for Control of Africa's Natural Resources. BY DOUGLAS A. YATES. Pluto Press, 2012, 256 pp. $99.00 (paper, $33.00).

The negative side effects of oil wealth in sub-Saharan Africa are well known. But Yates' book fills in some gaps in the story with insightful details. Yates focuses on the oil sector in central Africa and has more to say about Francophone countries, such as Chad, the Democratic Republic of the Congo, and Gabon, than about Anglophone producers, such as Nigeria and Ghana. He shows how oil wealth creates incentives to amass power and thus motivates political infighting in these countries. Leaders such as President Denis Sassou-Nguesso of the Republic of the Congo have used their countries' oil wealth to build enormous personal fortunes and buy the support of political allies and the military. Meanwhile, the vast majority of people in these countries have benefited shockingly little. Yates' final chapter is a useful survey of potential solutions to this sad reality. The most interesting approach he describes is the distribution of oil revenues directly to the population, which would bypass corrupt state officials. Getting such officials to agree, of course, would likely prove rather difficult.

Being Nuclear: Africans and the Global Uranium Trade. BY GABRIELLE HECHT. MIT Press, 2012, 440 pp. $29.95.

Beginning with the observation that the atomic bomb dropped on Hiroshima was made with uranium from a mine in what was then the Belgian Congo, Hecht explores the role of Africa in the development of military and civilian nuclear energy since World War II. The book is occasionally marred by Hecht's academic rhetoric, such as her repeated references to the state of "nuclearity" that African states have achieved through the global uranium trade. Still, it sheds light on a strategically crucial market controlled by a small number of powerful states. In the postwar era, Western nuclear powers agreed on the need to ensure a steady supply of uranium and, at the same time, prevent nuclear proliferation. Still, uranium caused disputes within and among countries, pitting producers, who wanted the element to be treated like any other commodity, against foreign policy establishments, which sought to regulate it more closely. Hecht provides fascinating details about apartheid South Africa's nuclear ambitions and also considers the shameful manner in which African governments and international companies downplayed the extent of the radiation risks posed by uranium to generations of African miners.

Enlightened Aid: U.S. Development as Foreign Policy in Ethiopia. BY AMANDA KAY McVETY. Oxford University Press, 2012, 312 pp. $74.00.

McVety explores the intellectual roots of foreign aid in this history of the relationship between Ethiopia and the United States. Ethiopia was one of the very first recipients of American assistance, beginning in 1951 under the administration of President Harry Truman. McVety deftly links foreign aid to Enlightenment ideals and to classical economics. The book really picks up steam when she describes the diplomatic wrangling that took place right after World War II between an American elite learning to flex its global muscles and an Ethiopian leader, Haile Selassie, who skillfully combined personal charisma, pleading, and threats to win a large infusion of American capital and technical assistance, which he hoped would help modernize Ethiopia and maintain his own power. McVety's book ends a bit abruptly and says unfortunately little about the equally interesting post-Selassie period. Meles Zenawi, Ethiopia's current strongman, has proved to be an excellent pupil of the Selassie approach to donors: Ethiopia today receives more than $3 billion a year in foreign aid.

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